

RESERVE

Reserve Oil and Gas Company 1975 Annual Report
and Securities and Exchange Commission Form 10-K



Board of Directors

Newton T. Bass, *Apple Valley*
Chairman of the Board, Emeritus

John R. McMillan, *Los Angeles*
Chairman of the Board and
Chief Executive Officer

Paul D. Meadows, *Denver*
President and Chief Operating Officer

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Partner, Ball, Hunt, Hart, Brown
and Baerwitz, Attorneys

Llewellyn Bixby Jr.,* *Long Beach*
President, Bixby Land Company

Walter E. Cramer, Jr., *Apple Valley*
Vice President

Cortlandt S. Dietler, *Denver*
President, Western Crude Oil, Inc.

Harold F. Green, *Los Angeles*
Senior Vice President

Malcolm McDuffie, *Los Angeles*
President, Mohawk Petroleum
Corporation, Inc.

Howard C. Pyle,* *Los Angeles*
Petroleum Investments

Carl W. Swan,** *Oklahoma City*
President, Basin Petroleum Corp.

B. J. Westlund, *Lake Oswego, Oregon*
Retired Businessman

Officers

Newton T. Bass, *Apple Valley*
Chairman of the Board, Emeritus

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Harold F. Green, *Los Angeles*
Senior Vice President

Walter E. Cramer, Jr., *Apple Valley*
Vice President

J. Edouard Michaud, *Denver*
Vice President—Planning
and Development

Robert E. Aberley, *Apple Valley*
Vice President and Treasurer

Marshall C. Turner, *Denver*
Vice President—Operations

William H. LeRoy, *Denver*
Vice President—Exploration

Thomas L. Deen, *Los Angeles*
Secretary

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m., on May 10, 1976, Auditorium, Concourse Level of Security Pacific National Bank, 333 South Hope Street, Los Angeles, California. The notice of meeting and proxy statement will be mailed to Shareholders in advance of the meeting.

Reserve Oil and Gas Company

Executive Offices:
550 South Flower Street
Los Angeles, CA 90071

The management

of the Company wishes to welcome those who have become shareholders since our last Annual Report. It is the Company's long-established policy to endeavor to keep its shareholders completely informed of its activities. If any shareholder, or any other interested party, would like copies of past Annual or Quarterly Reports, or other Company materials, please address a request to the Secretary of the Company.

The cover design

symbolizes Reserve's principal business, oil and gas. Through its activities in various parts of the world in exploration, production, purchasing, trading, pipeline operation and refining and marketing, Reserve has become an integrated oil company.

*Audit Committee

**Appointed January 20, 1976



Contents

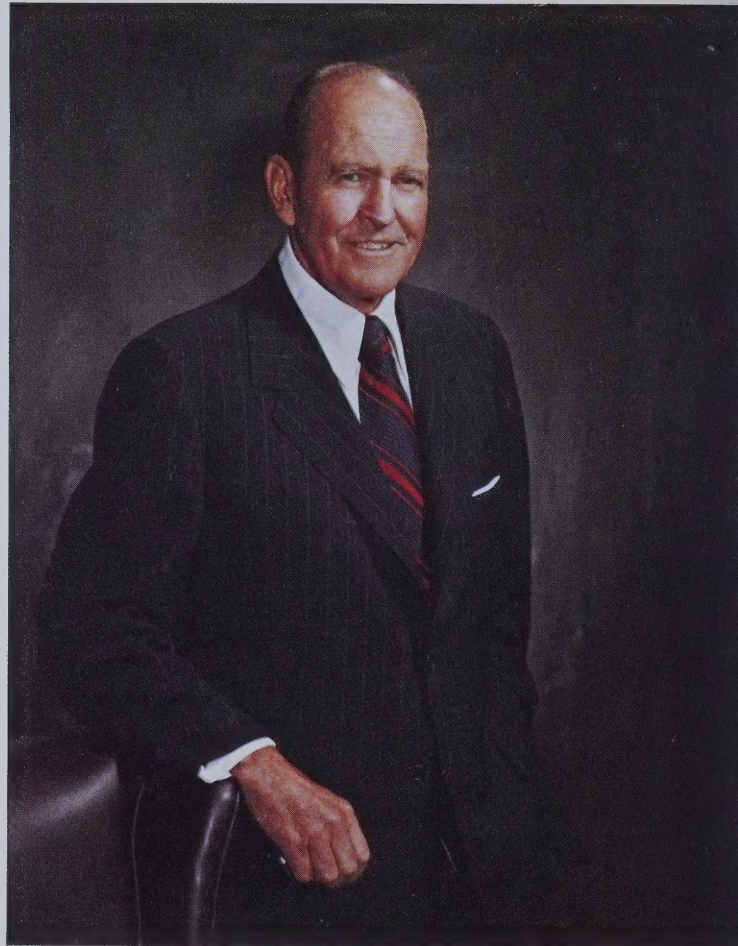
From the Chairman	3
Index to Form 10-K Items	5
Environmental Activities and Expenditures	5
Description of Business and Lines of Business	6
Exploration, Development, Operations	
Worldwide—United States	7
Canadian Reserve Oil and Gas Ltd.	11
Western Crude	15
Mohawk	18
Basin Petroleum	20
Foreign Exploration and Development	22
Apple Valley Ranchos	24
Oil and Gas Reserves	25
Consolidated Summary of Operations	26
Management's Discussion and Analysis of the Consolidated Summary of Operations	26
Personnel	27
Financial Review	29
Financial Statements	30

Financial and Operating Highlights

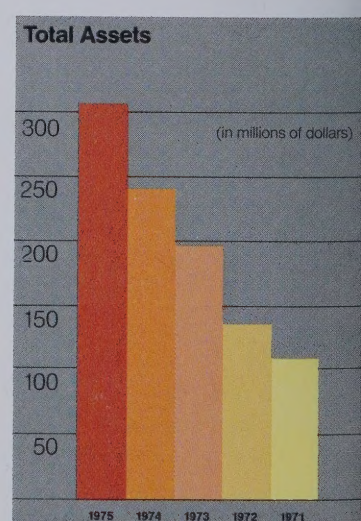
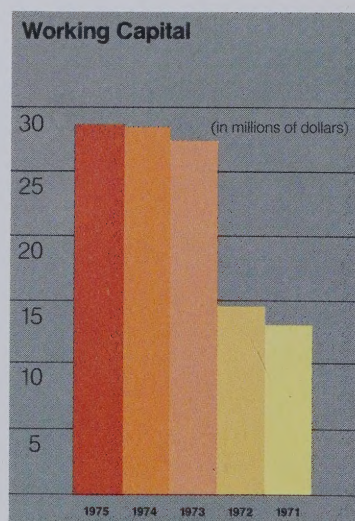
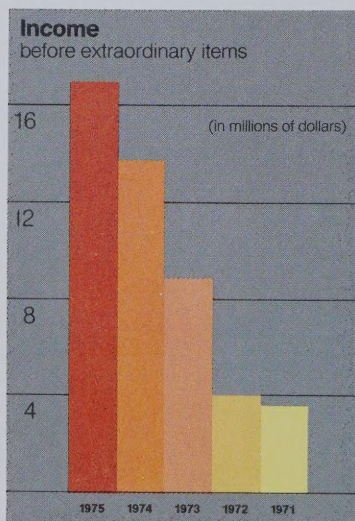
Financial	1975	1974
Total revenues	\$1,021,113,000	\$724,721,000
Net income	17,019,000	13,677,000
Common stock cash dividends	1,478,000	1,228,000
Shareholders' equity	108,715,000	93,388,000
Per share of common stock		
Net income	1.35	1.08
Cash dividends	.12	.10
Shareholders' equity	8.22	6.98
Working capital	28,781,000	28,296,000
Total assets	307,233,000	241,242,000
Capital expenditures and investments	28,577,000	23,138,000
Operating		
Crude oil and natural gas liquids production, barrels per day	8,646	9,538
Natural gas sales, Mcf per day	31,624	33,439
Crude oil processed, barrels per day	22,138	20,160
Crude oil and petroleum product sales, barrels per day	239,435	194,479

Kotcho Well d-71-G, now being connected into the new \$1.5 million gas gathering, treating and water disposal system in the field. See map on page 11.





John R. McMillan, Chairman and Chief Executive Officer.



From the Chairman

1975 was the fifth consecutive year in which Reserve reached new record levels in all significant financial categories. In summary:

NET INCOME WAS	\$ 17,019,000.....	Up 24%
PER COMMON SHARE	1.35.....	Up 25%
GROSS REVENUES WERE	\$1,021,113,000.....	Up 41%
FUNDS FLOW WAS	\$ 26,851,000.....	Up 2%
WORKING CAPITAL YEAR END WAS \$	28,781,000.....	Up 2%
SHAREHOLDERS' EQUITY WAS ...\$	108,715,000.....	Up 16%

Major Growth Factors. The major contributing factors to the sustained growth curve in 1975 were the continuing profit results achieved by the Company's principal U.S. subsidiaries, Western Crude and Mohawk Petroleum, and also by its U.S. Oil and Gas Division and Canadian Reserve. Each one of these integral segments of the Company's principal business had favorable profitability records.

Increased Dividend—Common Stock. Cash dividends paid in 1975 amounted to 12¢ per common share, an increase of 20% over the 10¢ per share paid in 1974.

At its January 1976 meeting the Board of Directors again raised the annual dividend—to 16¢, payable quarterly during 1976, an additional increase of 33⅓%.

Basin Petroleum Corp. On January 20, 1976 the merger of Basin Petroleum Corp. of Oklahoma City was completed. This new wholly-owned subsidiary has had a consistent and steady growth record in its principal lines of business as an oil and gas exploration/development and drilling company. It has also derived profits from supplementary lines of business which include interests in natural gas processing plants and the engineering and construction of dehydration equipment, feed mills and related facilities serving the animal feed and forest product industries. A highly favorable factor in this transaction is the immediate involvement of Reserve in a major exploration effort in progress in the Texas-Louisiana Gulf Coast area. Basin has interests in 24 prospects, both onshore and offshore, which are scheduled for exploratory drilling during 1976.

Oil and Gas Operations. In 1975 the Company again conducted exploration and drilling operations in the U.S., Canada and Colombia, South America and engaged in exploration activities in a number of other areas in the world.

The Company participated in 58 exploratory wells. Two discoveries were made in Wyoming and 3 in the Yougeen field in Texas. There were 11 exploratory successes in Canada. 35 development wells in which the Company participated were completed as producers.

A particularly successful continuing operation is the Reserve-Antweil Joint Venture in the South Carlsbad Field, Eddy County, New Mexico. Two Morrow tests were completed with an estimated

combined productive capacity of 25 million cubic feet of gas per day. The Joint Venture's interest in one of these wells is 4.6% and in the other, 54%. Reserve has a half interest in the Joint Venture. Early in 1976 drilling by other companies in Uinta County, Wyoming has given additional potential to substantial properties owned by Reserve in the area.

In Canada, the Company continued its exploration and development operations, principally in the western provinces, despite difficult political and tax circumstances. As the year progressed, however, these conditions showed substantial improvements in a number of respects and by the end of 1975 the Company resumed more aggressive exploration and development activities which will continue in 1976.

In British Columbia, the Company participated in a successful shallow gas well in the Kotcho area. In January of this year another Middle Devonian Reef gas field was discovered about 3 miles west of the initial Kotcho discovery well. A number of similar geophysical anomalies in the area will be drilled by the Company in 1976. Early this year one of these features located three miles northwest of the d-71-G gas well was drilled by the Company to the Devonian Reef and tested 7.5 million cubic feet per day at 1780 pounds flow pressure. This well, d-7-J, is 18¾% owned by the Company. Open flow testing of this well is continuing preparatory to adding the well to the gas system in April 1976.

In the Purple Springs area of Alberta, Canadian Reserve's drilling operations resulted in new production, and in the heavy crude area of Alberta-Saskatchewan the Company participated in 6.5 (net) productive development wells and 3.2 (net) productive exploratory wells.

Substantial increases in natural gas sales by Canadian Reserve are anticipated in 1976, primarily as a result of Kotcho wells which will go on stream.

Western Crude Oil, Inc. Western Crude again in 1975 achieved record levels of profitability, with both revenues and net income at an all time high. The Texoma 470-mile, 30" common carrier crude oil transportation system from port facilities near Beaumont, Texas, northward to Cushing, Oklahoma, commenced operation in late 1975. Full operation at the initial 300,000 barrel per day capacity may be reached during the second quarter of 1976.

The value of Western Crude's 20% ownership in the Texoma system is enhanced by its 100% ownership of major terminaling and storage facilities at the northern terminus of the Texoma line near Cushing. These facilities, with an initial capacity of approximately 1.5 million barrels, will handle crude oil of shippers who are participants in the Texoma line as well as that of other companies shipping through major U.S. pipelines which also have terminals at the Cushing junction.

International trading and transportation operations were expanded by Western Crude into Germany and Italy in 1975 and such operations continued at satisfactory profit levels.

Mohawk Petroleum Corporation, Inc. 1975 was the sixth consecutive year in which Mohawk was at new record levels in terms of crude oil runs, product sales volumes, gross revenues and profits. Gasoline sales were at a peak of 188 million gallons, up 8% from the prior year.

All of Mohawk's three crude oil units at its Bakersfield Refinery were on stream throughout the year with a resultant average daily run of 20,322 barrels, an increase of 7.6% from 1974 and a new record rate.

Although Mohawk continues to be subject to governmental controls affecting virtually every segment of its business, two very favorable events have occurred. First, the company was exempted, with other small Refiner-Buyers, from the Old Oil Entitlements Program of the Federal Energy Administration. It had become apparent that it was not in the national interest that the onerous provisions of this program continue to be applicable to the nation's small refiners. Second, early in 1976 Mohawk entered into an agreement with another refinery, one of the effects of which will be to insure increased supplies of unleaded gasoline to Mohawk for ten years. If the national energy policy continues to give realistic support to the nation's small refiners, Mohawk can continue to operate profitably.

Executive Changes. Upon completion of the Basin merger, Carl W. Swan, who continues as President of Basin, joined the Board of Directors of Reserve. Early in 1976 R. Bruce Bailey was elected President and a Director of Canadian Reserve. Paul D. Meadows, previously President of Canadian Reserve, was promoted to the post of Chairman of the Executive Committee.

Reserve's People. The results achieved by any company are a direct reflection of the skills and qualifications—but equally as important, the perseverance and dedication of its people at all levels. The performance of Reserve's employees in their contribution to the growth of Reserve is sincerely appreciated by the management and the Board of Directors.

Outlook. Continuance of the steady growth record of Reserve in 1976 is not only possible but probable, provided undue restrictions and burdens are not imposed with respect to the elements of enterprise and ingenuity which are essential factors to achievement. Your Company and its people will continue to diligently seek out and pursue opportunities for expansion and profitability.

John R. McMillan

FOR THE BOARD OF DIRECTORS
John R. McMillan, Chairman

March 19, 1976



Basin Petroleum Corp., acquired in January of 1976, owns a 50% working interest in the well shown above, Bayou Piquant Continental Land and Fir No. 1, located in Terrebonne Parish, Louisiana. The well was completed in November 1975 as a productive gas well and is presently shut in awaiting further evaluation and pipeline connection.

The Palos Verdes Landfill Methane Gas Recovery Processing Plant located on the Palos Verdes Peninsula, California. Through a patented zeolite molecular sieve process, the plant purifies gas from production wells for delivery to a gas company serving the Palos Verdes Peninsula area. There is no appreciable traffic, noise, air quality or environmental effect from this highly automated facility on any nearby residential area. See the text discussion of the landfill methane gas recovery program on page 10.



In this combined Annual Report and Form 10-K for the calendar year 1975, the sequence of information established by the customary format has been altered in some instances, but all the required information is included in an integrated presentation, designed to provide maximum information to the shareholders.

The summary information on the title page of Form 10-K is shown below.

Securities and Exchange Commission,
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Reserve Oil and Gas Company

For additional title page data—see page 41.

Index to Form 10-K Items

Item 1	Business	Pages 1-25
Item 2	Summary of Operations	Page 26
Item 3	Properties	Pages 1-25
Item 4	Parents and Subsidiaries	Page 38
Item 5	Legal Proceedings	Page 39
Item 6	Increases and Decreases in Outstanding Securities	Page 39
Item 7	Approximate Number of Equity Security Holders	Page 40
Item 8	Executive Officers of the Registrant	Page 40
Item 9	Indemnification of Directors and Officers	Page 41
Item 10	Financial Statements and Exhibits Filed	Page 41
Items 11 through 15		Page 41

Environmental Activities and Expenditures

During 1975, Reserve continued its policy of maximum compliance with environmental protection requirements and, additionally, with the Company's own assessment of appropriate efforts toward maintenance of a favorable environment in all of its areas of activity.

In its oil and gas operations, for example, unsuccessful drilling wells have been abandoned, the locations cleared of sumps, and the surfaces restored to as near their original condition as possible, including the reseeded of federal lands with native grasses. In the Company's producing activities, where necessary, arrangements have been made to dispose of potentially harmful waste water by injection into disposal wells or by other acceptable methods. In some areas, emergency catch basins have been screened to prevent any loss of wild life. Throughout its operations, Reserve has closely cooperated with environmental personnel of the Bureau of Land Management, Fish and Wild Life Commissions, the Forestry Department, and other governmental regulatory bodies. Environmental agencies have inspected Reserve's operations on numerous occasions and in every case

the Company's installations have been found to meet all of the applicable requirements to protect the environment.

Substantial expenditures are being made to insure compliance with federal, state and local pollution control rules and regulations. Company owned or operated service stations in California are pursuing a program of installing special vapor control equipment at dispensing tanks and pumps; diligent maintenance of pipelines and tank-trucks is monitored to minimize any possibility of pollution; and emission control equipment at the Company's refineries is upgraded as new regulations are promulgated.

It is estimated that capital expenditures for environmental control facilities and equipment will be at least \$650,000 in 1976 and are expected to approximate \$1 million in 1977. These projections could substantially increase with the implementation in California of more stringent vapor recovery regulations and possible adoption of new federal or state rules for removal of lead additives.

It will continue to be the Company's policy to exert its best efforts to insure compliance not only with government environmental protection requirements but also with its own rigid standards.

Description of Business and Lines of Business

The general nature and scope of the business engaged in by Reserve and its subsidiaries involves activities within four principal fields: Oil and Gas Exploration/Production; Refining and Marketing; Oil and Gas Gathering, Transportation, Processing and Marketing; and Real Estate, Warehousing and Miscellaneous. These activities consist of the following:

Oil and Gas Exploration/Production

Domestic exploration and production operations continued in the California, Rocky Mountain and Mid-continent regions with growing emphasis in the Rocky Mountain area. International activities continue in Canada, Colombia, the Middle East, Egypt and other areas. Production of methane gas from a California landfill was initiated in 1975 and landfill lease operations are conducted in other states.

Refining and Marketing

Reserve, through its subsidiary Mohawk Petroleum Corporation, Inc., owns and operates a refinery in Bakersfield, California, and, through its subsidiary Western Crude Oil, Inc., holds a 40% interest in a joint venture which operates a Colorado refinery. Refined products from the respective facilities, together with products acquired by exchange and purchase, are marketed in California, Arizona, Rocky Mountain and Mid-continent areas.

Oil and Gas Gathering, Transportation, Processing and Marketing

Reserve, through its subsidiary Western Crude Oil, Inc., domestically purchases, gathers, transports, processes and markets crude petroleum products. Western also owns and operates, for its own interest or others, or holds interests in pipeline systems traversing the continental United States. International trading and transportation of petroleum products are conducted by Western's European subsidiaries.

Real Estate, Warehousing and Miscellaneous

Real estate located in the desert community of Apple Valley, California, is developed and sold by Reserve's Apple Valley Ranchos Division. Warehousing operations are conducted in Long Beach, California.

(Basin Petroleum Corp. was acquired in January of 1976. See page 20.)

Information as to Lines of Business

The following table sets forth for the last five years the approximate percentages of (i) gross revenues and (ii) pretax income (loss), exclusive of extraordinary items, of Reserve allocable to its primary areas of activity with corporate overhead and interest expense allocated on the basis of gross revenues:

Percentage of Gross Revenues and Pre-tax Income	1975	1974	1973	1972	1971
Percentage of Gross Revenue:					
Oil and gas production	2.4	2.8	3.6	5.0	6.8
Refining and marketing	17.6	19.4	17.1	18.9	22.7
Oil and gas gathering, transporting, processing and marketing	79.4	76.8	77.8	73.9	67.7
Real estate, warehousing and miscellaneous	.6	1.0	1.5	2.2	2.8
Percentage of Pre-tax Income:					
Oil and gas production	33.0	33.2	15.7	37.5	43.5
Refining and marketing	30.7	25.7	23.8	21.6	24.6
Oil and gas gathering, transporting, processing and marketing	30.8	29.7	49.1	16.6	14.6
Real estate, warehousing and miscellaneous	5.5	11.4	11.4	24.3	17.3



ITEMS 1 and 3
The Business and Properties of the Corporation

**Exploration,
Development,
Operations**

Paul D. Meadows, President and Chief Operating Officer.



Worldwide

1975 witnessed expansion of the Company's activities on a world scale. Oil and gas operations were aggressively pursued in both the Western and Eastern Hemispheres. The completion of the Basin merger in early 1976 involved the Company for the first time in offshore continental U.S. petroleum exploration activity. The Company's crude oil and product purchasing and marketing business was expanded into Germany and Italy and new offices were opened in Essen and Milan.

United States

During 1975 the Company participated in the drilling of 21 exploratory wells and 20-development wells located in 11 states, with emphasis in the Rocky Mountain areas. This drilling activity resulted in five discoveries, two in Wyoming, three in Texas, and 16 successful development wells.

During the past year the major development activities of the Company were concentrated in drilling follow-up wells to discoveries in Carbon County, Utah; Coleman and Bee Counties, Texas; and Eddy County, New Mexico.

Wyoming

In Sweetwater County, Wyoming, the Company completed the South Salt Wells Unit #1 as a new fault block discovery. Initial tests indicate an open flow potential of 1.5 million cubic feet of gas per day. The Company plans to drill two follow-up wells to this discovery, and contracted gas sales are expected to commence in the Spring of 1976. The Company owns a 100% working interest in the discovery well until payout and 50% to 60% in an additional 3,120 acres in the contiguous area.

In the Osage Field area, Weston County, Wyoming (see Map, page 9), the Company completed the Reserve-Halbouty Federal #1-27 as a new pool discovery. The Newcastle sand at a depth of 950 feet has an initial productivity of 50 barrels of 41° gravity oil per day. The Company plans to drill at least four follow-up wells to this discovery as soon as the necessary permits have been obtained and the weather conditions are suitable. The Company's interest in this well and approximately 2,000 acres surrounding it is 50%.

Utah

Three development wells, Jack Canyon No. 8, No. 9, and No. 10, were completed in the Jack Canyon Field, Carbon County, Utah (see Map, page 8). Two of these wells, Jack Canyon No. 9 and No. 10 were completed as oil wells with a combined production rate in excess of 100 barrels per day. The third well, the Jack Canyon No. 8, was completed as a gas well with a delivery potential of about 800,000 cubic feet per day. The Company's interest in these wells is 58.3% which, together with previous wells, earns an interest in a total of 1,049 acres. Additional drilling at Jack Canyon allows the Company to earn interests in 720 more acres.

Gas development wells will be drilled in the adjoining Peters Point area in 1976, and a gas pipeline into the area is planned for 1976 or 1977. The Company presently owns interests in 640 acres at Peters Point, can earn interests in an additional 1,920 acres by connecting existing wells to a gas line when it becomes available, and can earn interests in 7,536 more acres by reentering or drilling additional wells.

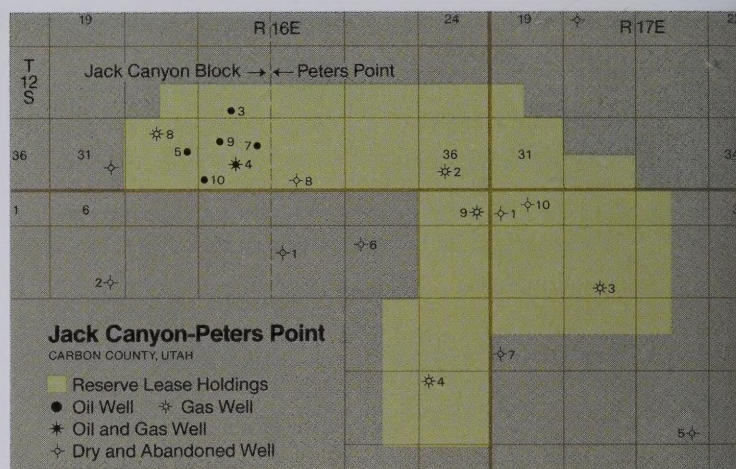
Texas

In the Yougeen Field area, Bee County, Texas, the Company drilled and completed three new fault block or new zone discoveries. Two of these wells were completed as new zone gas discoveries producing from the Yegua formation at rates of from 429,000 to one million cubic feet of gas per day, with some distillate. The third well was completed as a new fault block discovery, producing 35 barrels of oil per day from a Frio sand. Subsequently, two development wells were drilled and completed. Additional development and stepout drilling is planned for 1976. In addition to the field area, where Reserve owns a 33⅓% interest, the Company owns a 100% interest in approximately 2,450 acres of prospective adjoining acreage.

In Coleman County, Texas seven wells were completed as commercial producers with a combined capacity of 160 barrels of oil per day and 600,000 cubic feet of gas per day. The Company plans to continue its development program with six additional wells scheduled for 1976 on the 2,660 acres wholly-owned by the Company.

Company's Net Share Oil and Gas Sales—1975

	Crude Oil and Natural Gas Liquids—Bbls.	Dry and Casinghead Gas—Mcf
Texas	711,612	4,019,870
California	243,029	712,840
New Mexico	211,437	565,904
Wyoming	91,958	329,773
Louisiana	68,431	84,993
Illinois	20,437	—
Saskatchewan	1,210,362	36,899
Alberta	423,931	4,708,736
British Columbia	74,089	843,659
Manitoba	64,086	—
All Others	36,288	239,904
TOTALS	3,155,660	11,542,578
Average per day	8,646	31,624



Availability of Oil and Gas

The availability of oil and gas from the present supply for the year 1976, based on the Company's current forecast, is as follows:

	Crude Oil, Condensate and Plant Products (Bbls)	Natural Gas (Mcf)
United States	1,400,000	5,700,000
Canada	1,700,000	6,300,000
Total	3,100,000	12,000,000

Company's Net Share—Oil and Gas Sales

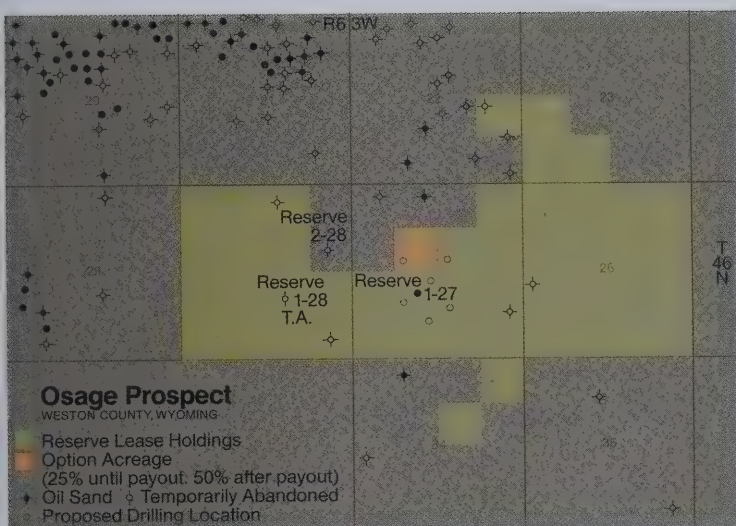
	Crude Oil and Natural Gas Liquids (Bbls) (Note 1)		
	United States	Canada	Total
1971	1,426,001	2,108,450	3,534,451
1972	1,336,511	2,333,792	3,670,303
1973	1,322,239	2,383,711	3,705,950
1974	1,411,601	2,069,679	3,481,280
1975	1,383,192	1,772,468	3,155,660

	Dry and Casinghead Gas (Mcf) (Note 2)		
	United States	Canada	Total
1971	7,124,097	5,330,410	12,454,507
1972	6,468,485	6,691,018	13,159,503
1973	5,824,662	5,937,703	11,762,365
1974	6,134,250	6,070,998	12,205,248
1975	5,953,284	5,589,294	11,542,578

Note 1—The amount dedicated to production payments was 663,013 barrels in 1971 and 646,859 barrels in 1972.

Note 2—The amount dedicated to production payments was 3,768,255 Mcf in 1971 and 3,370,001 Mcf in 1972.

Note 3—Canadian sales in the above tabulation represented 56.3% of crude oil, condensate and plant products and 48.6% of natural gas sold during 1975.



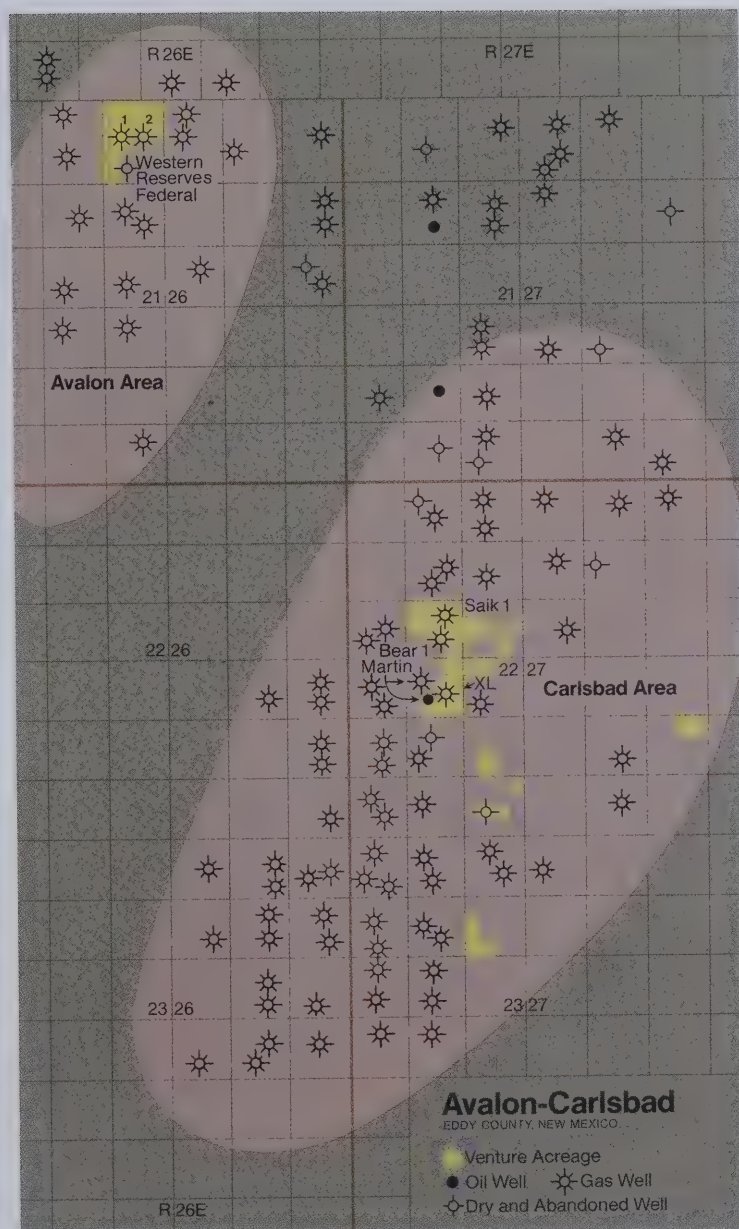
Drilling Operations The following table shows the result of exploratory and development drilling by Reserve and Canadian Reserve during the five year period from 1971 to 1975 including the results of the drilling in Colombia by Colombian Reserve:

Wells Drilled—Exploratory

Year	Oil Wells		Gas Wells		Dry Holes		Success Ratios
	Gross	Net	Gross	Net	Gross	Net	
1971	10	4.38	3	1.11	27	11.64	32.5%
1972	11	3.40	10	1.88	39	10.26	36.1%
1973	17	6.86	16	4.63	57	19.71	36.7%
1974	11	3.76	10	3.43	51	18.45	29.2%
1975	11	6.33	5	2.25	42	15.06	27.6%

Wells Drilled—Development

Year	Oil Wells		Gas Wells		Dry Holes		Success Ratios
	Gross	Net	Gross	Net	Gross	Net	
1971	67	11.86	6	.02	8	2.88	90.1%
1972	88	24.65	4	.26	7	2.17	92.9%
1973	55	11.86	12	.56	6	1.05	91.8%
1974	17	5.03	9	1.88	8	2.67	76.5%
1975	26	15.18	9	2.43	6	2.78	85.4%



New Mexico

Through its participation in the Reserve-Antweil joint venture, the Company drilled three wells in the South Carlsbad Field, Eddy County, New Mexico (see Map, above and photo, page 10). Two of these wells were deep Morrow tests and one was completed in the shallow Delaware sand. The two deep tests have an estimated combined production capacity of 25 million cubic feet of gas per day, and the shallow Delaware sand well was tested at 100 barrels

of oil per day. The joint venture's interest in one of the gas wells and the oil well is 4.6% and is 54% in the second gas well. One additional Morrow sand test was drilled in the Avalon area located northwest of the Carlsbad Field but failed to encounter commercial production.

Alaska

The Company, through its 80%-owned subsidiary Halbouty Alaska Oil Company (Halasko), is involved in two exploratory ventures in the State of Alaska. In the Susitna Flats area Halasko has joined with another company to form a State approved unit designated the Figure 8 Unit, comprised of two land blocks. Block I contains 12,760 acres, in which Halasko's interest is 40%. Block II contains 12,800 acres, in which Halasko's interest is 55%. A third party has agreed to drill a 9,000 foot exploratory test to earn a 40% interest in Block I. Such party can earn a similar interest in Block II by drilling a well on that block. Drilling operations are currently in progress on Block I.

In 1972 Halasko acquired a 2,500-acre tract in the Redoubt Bay area of the Cook Inlet located one and a half miles north of a confirmed oil discovery drilled in 1968. The Halasko tract has been pooled with some 7,000 acres in the immediate area, including the lands on which the discovery is located, to form the 9,500-acre Redoubt Bay Unit. Halasko's acreage comprises approximately 26% of the area included in the total unit. An exploratory well is planned for drilling within the unit area during 1976.

Landfill Gas Recovery Program

The experimental landfill methane gas recovery program in which the Company has a 50% interest through a joint venture with the NRG Group of companies is now being operated by Reserve Synthetic Fuels, Inc., a newly formed subsidiary of Reserve. The transfer of the operating function to Reserve Synthetic was accomplished without interruption in any of the program prospects.

The first gas recovery plant has been constructed and has been in operation since June of 1975 at the Palos Verdes, California, landfill. Five production wells, a pipeline gathering system and the plant are located on this 172-acre fill site. Although the plant has, over short periods, been capable of delivering commercial quality



Reserve-Antweil Joint Venture drilling rig in the South Carlsbad Field, Eddy County, New Mexico.

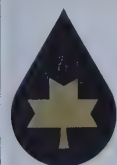
gas to the Southern California Gas Company, the initial operating period has been characterized by intermittent operational problems that have developed with some of the producing wells and the processing plant. Intensive efforts are continuing to resolve these operating problems which are considered inherent during the initial stages of a project to recover and process raw gas from landfill.

Pending the joint venture's ability to sustain deliveries of commercial quality gas for an extended period of time, additional landfill projects will be pursued where the joint venture has secured the required rights to install such facilities in other major landfill areas.

Acreage and Producing Wells

In the aggregate, as of December 31, 1975, Reserve owned interests in a total of 12,953,402 gross acres on which were located 5,494 producing wells or 627.70 net wells as indicated by the following tabulation:

Acreage and Producing Wells	Gross Acreage	Working Interest Acreage				Royalty Acreage		Oil and Gas Wells	
		Undeveloped Acreage		Developed Acreage		Gross	Net	Gross	Net
		Gross	Net	Gross	Net				
United States	676,338	465,823	262,434	210,515	23,400	282,139	7,478	1,973	251.94
Canada	7,457,016	7,138,509	3,547,156	318,507	79,558	6,245,884	148,987	3,517	375.26
Overseas	4,820,048	4,818,928	1,696,747	1,120	140	—	—	4	0.50
Total	12,953,402	12,423,260	5,506,337	530,142	103,098	6,528,023	156,465	5,494	627.70



Canadian Reserve

During 1975, Canadian Reserve increased exploration and development efforts in Alberta to establish natural gas projects, reduced the emphasis on heavy crude projects in Saskatchewan where marketing of the product and excessive royalties remained a problem, and for the period January through March, cancelled all new exploration drilling in northeastern British Columbia.

The Company participated in drilling 56 wells in western Canada, somewhat below the level of activity in 1974, when the federal and provincial confrontation over royalty assessments and taxation policies caused a significant reduction in exploration and development operations from previous years.

By mid-year 1975, the British Columbia government had established a new net wellhead price for natural gas to the producer of 55 cents per MCF, the Alberta government lessened the royalty burden to producers and also established an incentive program for exploratory operations, thereby allowing a return by Canadian Reserve and industry members to the search for energy reserves. By year end 1975, the Company was able to commence an aggressive exploration and development program which will continue in 1976.

Exploration and Development

BRITISH COLUMBIA

Kotcho Area. Two shallow wells were drilled in the Kotcho area (see Map, this page) in 1975, resulting in one natural gas well and one dry hole. The producer, d-a 71-G was completed in the Bluesky zone with an absolute flow of 2.7 million cubic feet per day. Seismic work was also conducted in selected areas indicating drillable features which will be tested during the 1975-76 season.

Early in 1976 one of these features located three miles northwest of the d-71-G gas well was drilled by the Company to the Devonian Reef and tested 7.5 million cubic feet per day at 1780 pounds flow pressure. This well, d-7-J, is 18¾% owned by the Company. Open flow testing of this well is continuing preparatory to adding the well to the gas system in April 1976.

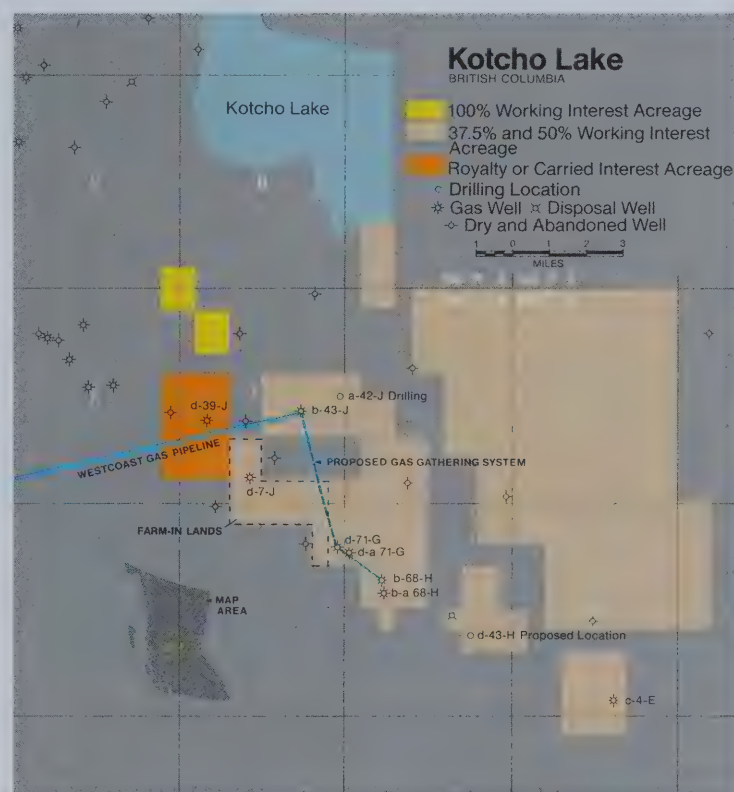
ALBERTA

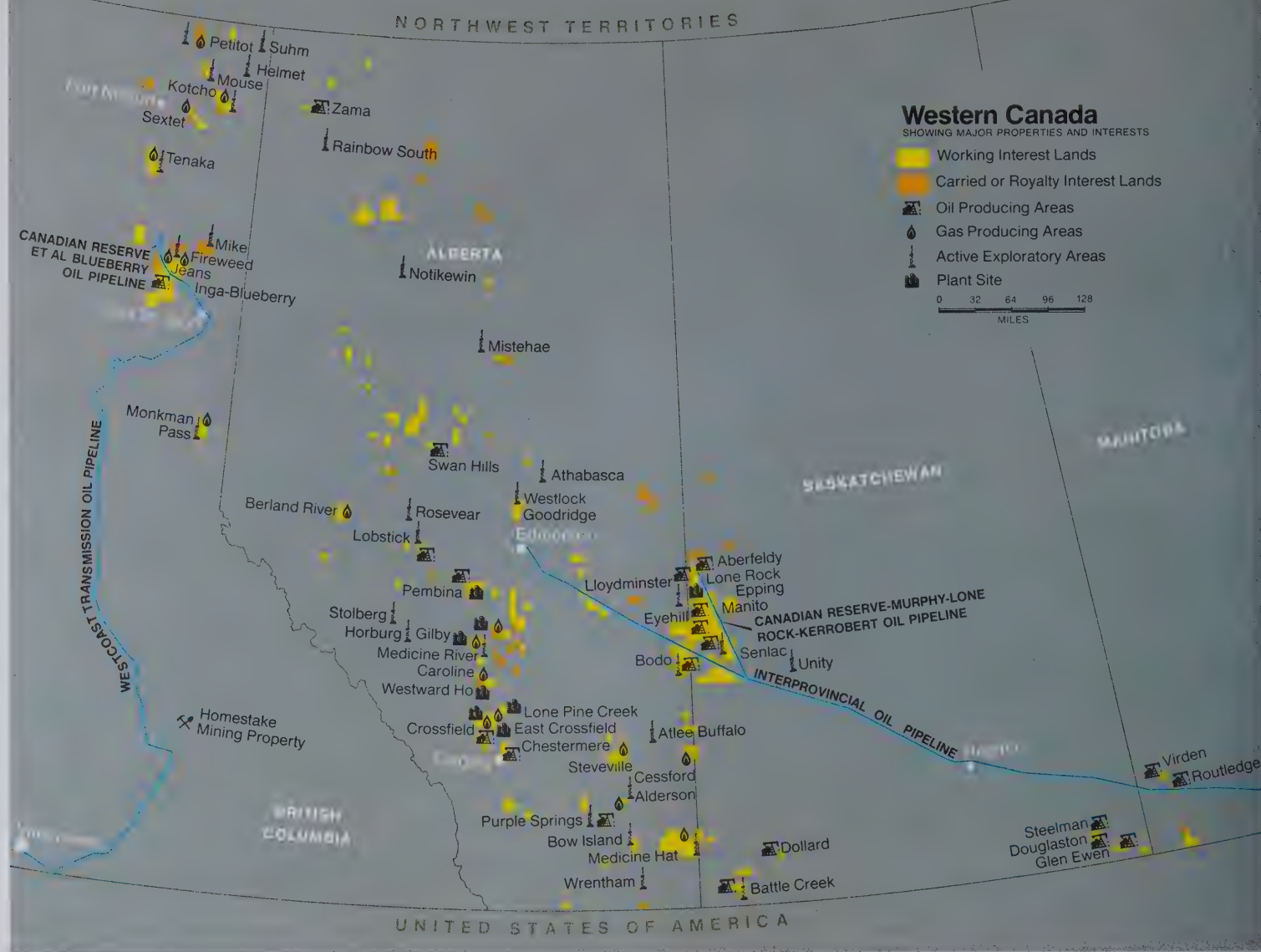
During 1975, Canadian Reserve participated in 21 (7.9 net) exploratory wells, resulting in one natural gas well and 6 oil wells. The Company also participated in 12 (2.3 net) development wells resulting in 4 gas wells and 7 oil wells in the province.

Purple Springs Area. The Company, as 50% partner and operator, drilled 5 wells on this prospect in 1975, resulting in one oil well, 2 suspended wells and two dry holes. These wells earned Canadian Reserve a net 920 acres and the right to earn an additional 480 acres. The Company also participated for a 50% interest in the purchase of 1,920 acres in the area. The 8-14 well on this prospect produces 50 barrels of oil per day of 24° API crude from a 15 foot porous Lower Mannville sand.

Atlee-Buffalo Area. During 1975, Canadian Reserve, as a 50% partner, joined in the purchase of a 23-section block (14,720 acres) on this shallow Cretaceous natural gas prospect in southeast Alberta. Industry has drilled 40 to 50 natural gas wells on offsetting lands in this area in the past year. A multi-well development program is planned for 1976.

Goodridge Lake Area. The Company, as 33.3% partner, participated in the drilling of a 3,200 foot Mississippian-Banff test on a jointly held 11,200-acre Natural Gas License on this prospect. The well is presently suspended as a potential Basal Quartz natural gas well. A follow-up well drilled on the license early in 1976 resulted in a dry hole.





HEAVY CRUDE AREAS

Alberta-Saskatchewan. During 1975, Canadian Reserve participated in 15 (7.6 net) development wells resulting in 13 oil wells and two dry holes. The Company also participated in 12 (7.2 net) exploratory wells resulting in five oil wells and seven dry holes. Eight additional wells were drilled by other companies on Canadian Reserve's behalf resulting in seven dry holes and one natural gas well (see map, page 13).

Canadian Reserve maintained a minimum drilling program in the heavy oil area of Saskatchewan during 1975 because of the continuing adverse economic effect of Federal and Provincial royalty and tax legislation. This drilling program was restricted to the Lone Rock-Epping producing area where exploratory risk is lower due to a higher density of subsurface control.

Land

On December 31, 1975 Canadian Reserve held working interests in 7.4 million acres (3.6 net) and overriding royalty interests in 6.2 million acres throughout Canada in the Western Provinces, Ontario,

the Arctic Islands, the East Coast offshore and the Yukon and Northwest Territories. Productive land holdings in the Western Provinces increased by 5,200 acres to 328,200 acres, notwithstanding the reduced exploratory operations (see page 25, the section "Business—General").

In June 1975 the Federal Government summarily cancelled all pending applications for permits, including the 14.7 million acres off the Labrador Coast in which the Company held a one-third interest. Also on the East Coast, 3.6 million acres in the Grand Banks area were surrendered after evaluation by a major company under a farmout agreement with Canadian Reserve.

A Seismic/Farmout Agreement was concluded on some 475,000 acres in the Nansen Sound Block and the 2.8 million acre McLure Strait Block was converted to an overriding royalty position.

New acquisitions in the Western Provinces were limited to selected prospect areas where the Company will proceed with drilling programs. The principal new holdings acquired during 1975 were in the Rainbow Lake, Horburg and Atlee-Buffero areas of Alberta and in the Suhm and Helmet areas of British Columbia.

The Alberta Government has proposed new Land Tenure regulations to be effective April 1, 1976 which will require the drilling of leases or licenses to earn, within a reduced time frame. The resulting increased turnover of land holdings by the industry will open prospective lands to exploration and allow Canadian Reserve and other independent companies to participate in an increased number of higher quality prospects.

Drilling

Exploratory completions totalled 35 wells, resulting in nine oil wells, two natural gas wells and 24 dry holes for a success ratio of 31.4%. Canadian Reserve's interest in the successful exploratory completions resulted in 5.5 net oil wells and .6 natural gas wells.

Canadian Reserve participated in the drilling of 21 development wells during the year, equivalent to 9.2 net wells. Of these 14 (6.8 net) were completed as oil wells, five (1.3 net) as gas wells and two wells abandoned for a success ratio of 90.5%.

Production and Sales

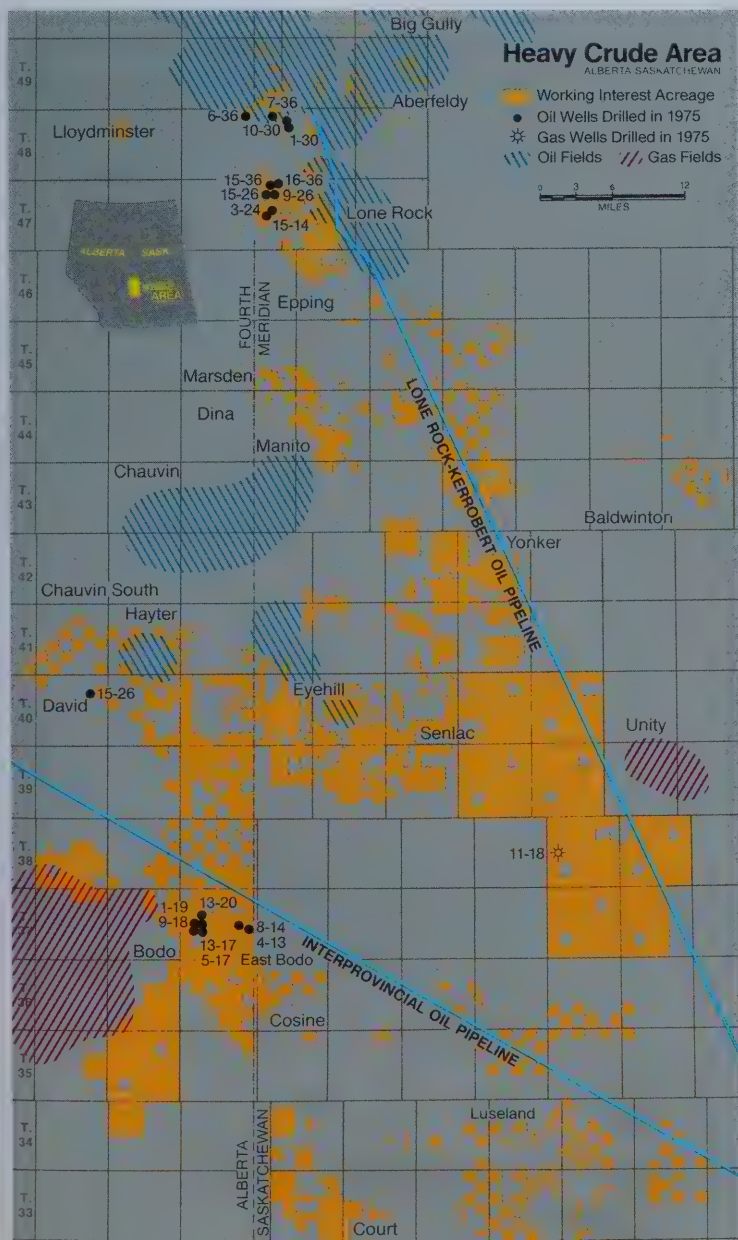
During 1975, the Company experienced a reduction in net crude oil and natural gas liquid sales. This reduction from a daily average during 1974 of 5,670 barrels to 4,856 barrels in 1975, is a direct result of increased royalties claimed by the Alberta and British Columbia governments during the year, and production problems encountered as a result of a shut down of 50% of heavy crude operations during November of 1974. Loss of a market for heavy crude oil as a direct result of the Federal Export Tax, plus increased Saskatchewan royalties, necessitated shutting in a total of 115 producing and 16 injection wells in the Lloydminster area. Although this market was later regained, normal producing rates were not re-established for the shut-in wells until July, 1975.

Net natural gas sales during 1975 averaged 15.3 million cubic feet per day, a slight decrease from the 1974 average of 16.6 million cubic feet per day. This nominal decrease is attributable to increased royalties in the Province of Alberta, resulting from natural gas price increases.

Substantial increases in natural gas sales are expected in 1976 primarily because additional natural gas reserves in the Kotcho area of northeast British Columbia will be placed on stream. A gas gathering system has been designed for the area and construction was initiated in December of 1975. It is anticipated this system will be operating by April of 1976, thereby increasing the Company's net gas sales by some 3.5 million cubic feet per day. Net sulfur production during 1975 averaged 109 long tons per day for a decrease of 5.2% from the 115 long tons per day in 1974. The Company sold 38,850 long tons during 1975 for an average net back price of \$20.40 per long ton, which compares with the price of \$17.20 per long ton received in the previous year.

Natural Gas Processing

Canadian Reserve owns interests ranging from 0.67% to 33.3% in seven natural gas processing plants in Alberta (see Map, page 12). The Company's most significant plant interests are in the Crossfield, East Crossfield, Sylvan Lake and Lone Pine Creek Fields of Alberta.



Aerial view of the Lone Pine Creek sour gas processing plant located 35 miles northeast of Calgary, Alberta, Canada, in which Canadian Reserve has a 33 1/3% interest. At the left, sulfur produced from the plant is shown in block storage form.



Canadian Reserve owns an approximate 12% interest in natural gas processing facilities in the East Crossfield area, 30 miles northeast of Calgary. The Company's share of plant products from these facilities during 1975 amounted to 1,853 million cubic feet of sales gas, 41,400 barrels of condensate and 15,825 long tons of sulfur.

Total throughput in the East Crossfield Elkton Plant in 1976 will approximately double the gross 1975 rate of 7 million cubic feet of gas per day. This increase is a result of development drilling and approval by the Energy Resources Conservation Board to increase natural gas withdrawals from the Elkton "A" pool. Canadian Reserve's net gas production rate in this pool will increase from a 1975 average of 1.3 million cubic feet per day to 2.0 million cubic feet per day in 1976.

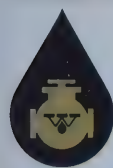
Transportation

Canadian Reserve owns a 47.5% interest in the 101-mile Lone Rock-Kerrobert pipeline system (see Map, page 13) which transports a crude oil-condensate blend from the Lloydminster area of Saskatchewan to connect with the Interprovincial Pipeline at Kerro-

bert, for delivery to the Ontario and Chicago marketing areas. During 1975 the Lone Rock-Kerrobert pipeline delivered 2,891,000 barrels of blend to the Interprovincial line. This averaged 7,920 barrels per day, a decrease of 4.2% from the 1974 daily average of 8,268 barrels per day. This reduction was caused mainly by a decrease in exploratory and development drilling in the heavy crude area due to governmental policies.

FRONTIER AREA ACTIVITY

Colville Lake Area. In 1975, an extensive seismic program comprising approximately 200 miles of coverage was conducted in this area (see Map, above). The program was a follow-up to the Ashland, et al Tedji Lake F-24 gas discovery of 1974 in which Canadian Reserve has a major interest. The new seismic information revealed additional anomalies that warrant testing. Such testing, however, will await enactment of the long expected new land regulations by the Federal Government. In the Yukon and Northwest Territories, the Company holds working interests in 1,485,630 acres (991,426 net) and overriding royalty interests in 613,197 acres.



Western Crude

Total revenues of Western Crude Oil, Inc. and its subsidiaries exceeded any previous fiscal year, increasing by 41.2% over the like 1974 period. Net income likewise advanced to 34.5% over 1974. These increases were achieved despite increasing control of the petroleum industry by all levels of government and the attendant advance in overall operating costs.

Virtually all segments of the Company's operations continued to expand as planned. In addition, as a result of designed growth, new pipeline mileage was required and the Company added substantially to its owned truck transport fleet.

Start-up of Texoma Pipe Line Company's new 30-inch 470 mile common carrier crude oil system occurred in November. Similarly, Western Crude Terminals, Inc. commenced operation of its new 1.5 million barrel capacity terminal facility at Cushing, Oklahoma,



located at the northern terminus of the Texoma pipeline system. In late 1975 Texoma, delayed by severe adverse climatic conditions and by labor strikes at Beaumont, commenced operations almost a year later than scheduled. Initial throughputs were at volumes and rates substantially less than line capacity because tankage and port facilities at Beaumont were not yet completed. Capacity rates through Texoma of approximately 300,000 barrels per day are expected to be achieved during the second quarter of 1976. Western Crude Oil, Inc. is a 20% participant in the ten-company Texoma Pipe Line consortium.

The terminal facilities at Cushing are owned and operated by a wholly-owned subsidiary of Western Crude Oil. The installation at Cushing consists of a totally renovated existing tank farm purchased in 1974. Old tanks were completely rebuilt, cleaned and painted. New tanks have been added, and some of the older tanks were dismantled and rebuilt into larger sized vessels. All piping and manifold installations are new and not only fully meet requirements of safe and efficient design but also are sized and styled to meet the expected volumes and market demands required by the Company's customers. Electronically controlled and monitored, this terminal is up-to-date in every respect. All safety and environmental requirements are being met.

International operations, plagued by a dull market and a decline in ship charter revenues throughout 1975, nonetheless resulted in satisfactory profits. Expansion into Germany and Italy was accomplished during the year. Beginning in 1976 the United States will be required to import almost 50% of its liquid hydrocarbon needs, assuming consumption forecasts are reasonably accurate. Consequently, as the new year unfolds, the Company believes that it will be able to participate to an important degree in arranging for the source and transportation of this needed energy. Further, it is expected that with the advent of the Texoma pipeline system, additional market opportunities will develop.

As it became definite in 1975 that Canada would indeed severely restrict its export of crude oil to the United States, Western Crude Oil, Inc. and six associates organized Northern Tier Pipeline Company to construct and operate a common carrier crude oil pipeline from the Puget Sound area of northwestern Washington to intersect with Lakehead Pipe Line Company at Clearbrook, Minnesota.

The 1,500 mile west-to-east route of this proposed large diameter system is expected to use, to an extensive degree, the railroad rights-of-way of its participants, Burlington Northern, Inc. and the Milwaukee Road. This system, with an original design capacity of almost one million barrels per day, is projected to begin at the only U.S. harbor having the capability of properly accommodating VLCC (very large crude carrier) tankers. Therefore, application has been made to establish Northern Tier's terminal facilities at Port Angeles, Washington. As a vitally needed tool by which domestically produced Alaskan crude oil can be shipped to the

crude oil-short Northern Tier refiners, this important all-American route is also strategic to this nation's security. The pipeline project includes plans to develop underground crude oil storage facilities in the Williston Basin of North Dakota in accordance with the objectives of the Energy Act of 1975.

Expanded truck transport operations in Michigan; more crude oil purchase and sales activity in the Southeast as an outgrowth of the Company's new Mobile, Alabama District Office; additional pipeline extensions in West Texas and New Mexico; and stepped-up exploration efforts in the Rocky Mountains are but a few of the new projects and profit potentials on the horizon for Western Crude Oil. In eastern Wyoming, as an example, the Company is currently surveying the right-of-way for a new 30-mile crude oil gathering and transportation system being designed to serve a new oil and gas field discovered in late summer of 1975.

The Company's capital expenditure program for 1976 will continue to be aggressive, prudent and substantial. Expansion of the Company's self-serve retail petroleum products marketing will figure importantly in the new year's program.

1976 is expected to be another profitable and busy year for the Western Crude Oil group of companies.

Pipeline Systems

Western operates numerous pipeline systems in the states of Kansas, Louisiana, Michigan, Montana, Oklahoma, Texas and West Virginia as shown in the following table:

Total Pipeline Systems	Aggregate Length (Miles)	Daily Through-Put Capacity (Bbl./day)	Storage Capacity (Barrels)
21	1,523.9	617,000	2,687,800



(Above) Aerial view of the Cushing terminaling and storage complex.

(Right) Central electronically operated and monitored terminal and storage control facilities at Cushing. 24 hour a day technical safety and environmental protection devices are integral features of this complex.

(Below) Close-up of pumping facilities at the Cushing Terminal.



Marketed Refined Products

Gross sales of principal refined products marketed by the Company during the last five years were:

Year Ended December 31

1971	\$ 30,600,000
1972	37,542,000
1973	121,079,000
1974	208,843,000
1975	308,204,000

Marketed Crude Oil

Gross sales of crude oil purchased and marketed by Western since its merger with Reserve in 1973 were:

Year Ended December 31

1973	\$262,995,000
1974	494,220,000
1975	681,125,000



Mohawk

Mohawk Petroleum Corporation, Inc. achieved higher levels of crude oil runs, product sales volumes, revenues and profits for the sixth consecutive year since it became a subsidiary of Reserve. The company conducted all aspects of its operations during the year under Federal Energy Administration regulations.

In the marketing of motor gasoline, the company's principal product, sales increased 8% to 188,690,173 gallons, an achievement resulting principally from the success of the company's Supply and Distribution Department in obtaining increased supplies of crude oil for the refinery and refined products for the company's Marketing Divisions. At year end, wholesale demand for Mohawk products was at an all-time high, although retail prices for gasoline were moving downward in response to intense competition. At Mohawk's company-operated service stations prices of all grades of gasoline were below the company's legal ceiling but remained at a profitable level.

A significant change in the demand pattern for various grades of Mohawk gasoline continued during the year. Unleaded gasoline sales, which represented 3% of total sales in 1974, averaged 6% in 1975, and rose to 8% by year end. Conversely, premium gasoline demand declined from an average of 46% in 1974 to 40% in 1975, while sales of leaded regular gasoline remained level throughout the year at 54%.

In response to these changing trends, Mohawk early in 1976 entered into an agreement with another refinery to ensure for ten years increased supplies of unleaded gasoline to assist in meeting its projected requirements.

At year end Mohawk products were being marketed through 287 retail outlets located in 151 cities and towns throughout California and Arizona. These units comprise 185 Mohawk branded service stations, of which 29 are company operated. All other stations, including 102 outlets selling Mohawk products rebranded to other trade names, are operated by independent lessees and dealers, many of whom are customers of jobbers and distributors supplied by Mohawk. In keeping with changing trends in the industry, and in an effort to offer gasoline at the lowest possible price to consumers, the company converted four conventional service stations to automated, self-service operations. Each such conversion has resulted in substantially higher volumes, lower operating costs, and larger profits per station. Additional conversions are planned for 1976.

Sales of diesel oil, Mohawk's second largest product both in volume and value, totalled 85,179,949 gallons, an increase of 36% over 1974. This product is distributed principally to a major railroad, to the farming industry throughout California, to a neighboring refinery as a hydrocracker feedstock and through Mohawk service stations as fuel for the trucking industry and diesel powered automobiles.

At the Bakersfield Refinery, each of Mohawk's three crude units was on stream for the entire year, resulting in average daily runs of 20,322 barrels per day, an increase of 7.6% over 1974 and the highest annual average rate in the company's history. This record high level was made possible principally as a result of purchases of additional supplies of oil made available to Mohawk under the Federal Energy Administration's Mandatory Crude Oil Allocation Program. This oil, purchased through the cooperation of a major oil company, was a high gravity, low-sulfur Alaskan oil shipped by truck to Bakersfield from the Los Angeles harbor. This arrangement made possible, for the first time, the production and sale by Mohawk of low-sulfur fuel oils required by Los Angeles Basin utilities as a result of environmental restrictions.

In 1975 gasoline production represented approximately 54% of total gasoline sales. The difference between sales requirements and production was acquired from other refineries in California by direct purchase, or through crude oil processing agreements. It is anticipated that such arrangements will be continued during 1976.

Notwithstanding the fact that no such restrictions have been imposed at the federal level, the California Air Resources Board has adopted a regulation which requires California refineries to substantially reduce the utilization of tetraethyl lead additives in the manufacture of gasoline. The regulation affords a deferment to small refineries such as Mohawk until January 1, 1979 to commence meeting the reduction schedule, but will require Mohawk to reduce its customary lead usage approximately 60% by January 1, 1980. Although Mohawk's 2500 barrels per day catalytic reformer has the capability of manufacturing limited supplies of unleaded gasoline, it can do so only at the expense of substantial volumes of high-octane blending stocks for other grades. Accordingly, as noted above, the company has entered into contracts with another refinery for additional supplies of unleaded gasoline and utilization of such refinery's excess reformer capacity to process Mohawk feedstocks into high octane blending components. Meanwhile, the company is continuing engineering studies directed toward a resolution of its future refinery requirements, imposed by this and other increasingly onerous environmental restrictions.

Of critical importance to Mohawk was the inclusion of Sec. 403 in the Energy Policy and Conservation Act, signed by President Ford on December 22, 1975. This provision exempts Mohawk and other small Refiner-Buyers from the devastating effects of the Federal Energy Administration's Old Oil Entitlements Program, which would have required Mohawk to pay millions of dollars to other refiners during 1975 had it not been for the company's success in seeking and receiving relief from F.E.A.'s Office of Exceptions and

Appeals. The F.E.A. has taken a position in opposition to the benefits afforded small refiners under Sec. 403. If the F.E.A. position prevails Mohawk will again be required to seek individual relief. Granted such relief, Mohawk should continue to operate profitably throughout 1976.

Crude Oil Processed

Total crude oil processed at the Mohawk refinery and the daily average of runs for each of the past five years have been as follows:

	Total Annual, Barrels	Daily Average, Barrels
1971	5,977,752	16,377
1972	5,976,507	16,329
1973	5,877,100	16,102
1974	6,892,006	18,882
1975	7,417,422	20,322

Operating Highlights 1975

Refinery Thruput	7,417,422 Bbls.	20,322 Bbls. per Day
Gasoline Sales	188,690,173 Gals.	15,724,181 Gals. per Month
Diesel and Stove Oil Sales	86,360,400 Gals.	7,196,700 Gals. per Month

(At top) New Mohawk equal opportunity training station at Fillmore and Bush Streets, San Francisco. The station is leased by Mohawk to, and operated by, Morrisania West, Inc., a non-profit corporation which provides employment and career training opportunities to inner city young people.

(At right) Recently completed Mohawk self-serve station at 28th and El Camino Real, San Mateo, California.

(Below) Architect's rendering of Mohawk's new office building under construction adjacent to its refinery at Bakersfield, California. Refinery, financial and accounting, and data processing personnel will occupy the building.





The merger with Basin Petroleum Corp. was completed on January 20, 1976. Basin will continue to operate under its existing management and with its present personnel.

Basin is an independent oil and gas producer engaged in exploration, development and operation of oil and gas producing properties. It is also engaged in the contract drilling business, employing seven drilling rigs. Among its other assets, Basin owns interests in four natural gas processing plants three of which are located in Oklahoma with the fourth located in Michigan, and 19,600 acres of coal leases in southwestern Utah. Through its ownership in R.A.F. Corporation, Basin is engaged in the business of design, manufacture and construction of dehydration equipment, feed mills and related facilities and natural gas processing plants.

Basin's producing properties consist of 440 leases in which they have generally small interests, largely concentrated in the Mid-Continent area. The states of Oklahoma and Texas contain 310 and 43 of Basin's leases, respectively. The remainder are located in the states of Arkansas, Kansas, Louisiana, Michigan, Pennsylvania,

Tennessee, West Virginia, Wyoming and Utah; and in British Columbia, Canada. The Company's net production is currently approximately 700 barrels of oil per day and 15 million cubic feet of gas per day.

Initially Basin concentrated its activities in Texas and Oklahoma and as a result most of its producing leases are in this area where it is continuing an increasingly aggressive exploration effort. In recent years the Company developed a major exploration program along the Texas-Louisiana Gulf Coast, an area characterized by prolific gas-condensate fields. A number of prospects are under consideration both onshore and offshore and, with the completion of detailed geological and geophysical analyses, several of these prospects are scheduled for exploratory drilling during 1976. In these two major areas of exploratory activity a total of 24 defined prospects are now at the ready-to-drill stage and the Company plans to drill a substantial number of exploratory wells during the coming year.

Basin owns a 75% interest in coal properties located in Kane, Iron and Washington Counties in southwestern Utah which are well situated within the Kolob Coal Field where production was initiated on a significant scale in 1947. A core drilling program completed during 1975 indicates that coal in place may be significant, but drilling of additional core holes is required for accurate determination of coal quality, seam thickness and geological conditions that affect mining operations and coal in place estimates. Basin plans to pursue a more detailed evaluation program during the coming year.

Basin owns a 58.2% interest in R.A.F. Corporation. R.A.F.'s principal place of business is in Neodesha, Kansas, where it manufac-

(Right) Basin's newest rig, a Gardner-Denver 500, capable of drilling to about 13,000 feet. The drilling operation shown is in Canadian County, Oklahoma.

(Below) One of the four natural gasoline plants in which Basin owns an interest.





Offshore Texas—Gross and Net Acres

	Gross Acres	Basin Interest	Net Acres
Block 104 Dome	3,470	6.67%	231
Galveston Block 306-L/278-L	5,760	6.67%	384
Tract 444-S/337-L*	2,080	6.67%	138
Brazos Block 340-L/366-L/367-L	4,635	6.67%	309

*The Rutherford-State Lease #70397, Well #1, will be drilled on this block.

Offshore Louisiana—Gross and Net Acres

	Gross Acres	Basin Interest	Net Acres
Main Pass Block 74	1,733	7.50%	130
South Pelto Block 13	5,000	13.50%	675
Eugene Island	5,000	33.33%	1,666
Vermilion Block 354	5,000	45.00%	2,250

tures, engineers and constructs dehydration equipment, feed mills and related equipment, serving the animal feed and forest product industries. Dehydration plants manufactured by R.A.F. are principally used to dehydrate alfalfa and forest product industry waste such as wet sawdust for use in particle-board manufacture. Dehydrators find use, for example, in drying materials for shipping weight purposes, mixing and blending into feeds and facilitation of burning. R.A.F. manufactured feed mills are utilized by the poultry, swine and cattle industries for manufacture of complete mixed animal feeds.

In October 1975 R.A.F. purchased an 89.5% interest in Trend Construction Company, an Oklahoma corporation, which is engaged primarily in the design and installation of natural gas processing plants.

The contract drilling business conducted by Basin in the past on a highly successful scale will continue to be operated as a separate and independent entity.

Basin has been very successful for a number of years in keeping all of its rigs in operation at a high percentage rate. That rate was 68% in Basin's 1971 fiscal year, 72% the next year, 89% in 1973 and 89% in 1974, followed by 90% in 1975.

Sales of Basin's oil and gas production are continuing to be made under favorable arrangements. At the end of 1975, 30 purchasers were taking approximately 77% of the company's oil and gas production and 14 purchasers were taking 63% of such production. No single customer takes more than 10%. In no area is Basin dependent upon either a small number of purchasers or a small number of customers in its continuing operations. During the year ended December 31, 1975, the average price received by Basin for crude oil, condensate and plant products was \$9.56 per barrel, after production taxes and transportation charges, and the average price received from the sale of natural gas was approximately 54¢ per MCF.

Carl W. Swan was elected a Director of Reserve upon consummation of the merger. He has served as President and director of Basin since 1967 and prior to that was President of Basin Drilling, Inc., a company which he founded in 1964.

Your Company feels that the addition of Basin will constitute a major increase in the Company's involvement in exploration and development programs in the Mid-Continent and Gulf Coast. Reserve is currently in the process of integrating its producing and exploratory activities with those of Basin in order to properly utilize the highly qualified personnel of the two companies.



Foreign Exploration and Development

Sharjah/Fujairah

Reserve owns a 100% interest in two large scale oil exploration concessions located in the territorial waters of the United Arab Emirates of Sharjah and Fujairah in the Gulf of Oman (see the accompanying map and related picture). The aggregate area covered by the two concessions is approximately 1 million acres. During the last year the Company has conducted an extensive marine seismic program on these concessions totalling more than 1,000 miles of seismic lines. The Company has also acquired additional geophysical data consisting of approximately the same amount of seismic lines previously run on these lands. Interpretation of the aggregate data has been completed and has resulted in the delineation of several indicated anomalies. The Company is now pursuing plans for exploratory drilling. It is recognized that the area is one of high potential for the possible discovery of substantial accumulations of hydrocarbons.

The ownership interest in the two concessions is held by Eastern Reserve Oil, S.A., a wholly-owned subsidiary.

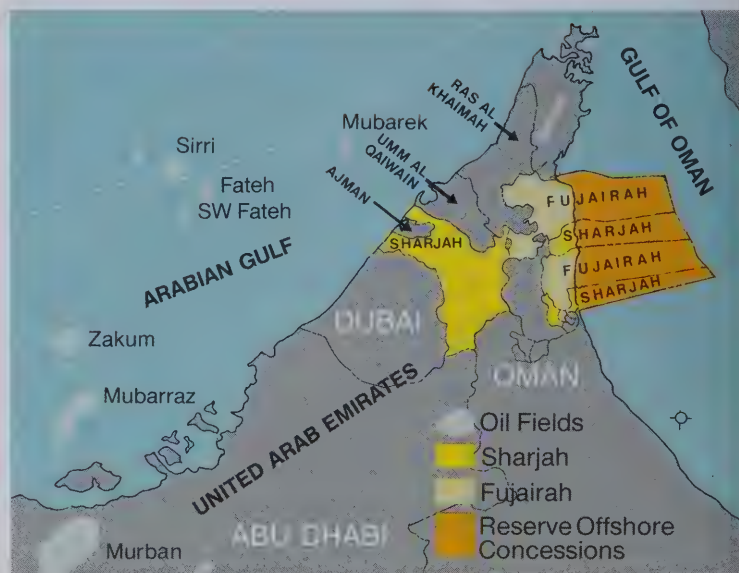
Colombia

During 1975 the Consortium in which Reserve is a 12½% participant drilled and completed for production the Burdine #4, a development well in the Burdine Field. The well tested at a rate of 630 barrels of 30° gravity oil per day from the U sand at a depth of 10,780 feet and was then shut-in awaiting installation of production facilities (see map, opposite page).

Production from the Consortium's Association Contract Areas is expected to commence in early 1976 in both the Burdine Field and the Nancy Field. The indicated aggregate productive rate from the four producible oil wells in these two Fields is 4,200 barrels per day. The production and sale of oil from these wells has become feasible because in August 1975, the Colombian government established new prices for oil produced from newer fields and from depths and regions expensive to explore. The new price for oil produced from the concession lands under contract to the Consortium is \$6.50 per barrel. Shortly after this new increased



(Left to right) Ghafoor Behrouzian, Financial Advisor to the Ruler of Fujairah; Hashim Behrouzian, Representative of the Ruler; Rafic Chahine, a director of Eastern Reserve; His Highness Sheikh Hamad Ben Mohammed Al-Sharqi, the Ruler of Fujairah; Paul D. Meadows. The picture was taken on the occasion of a visit to Denver, Colorado, in 1975 by the Ruler and his representatives.





price was announced the Consortium signed an agreement with Ecopetrol, the Colombian Government Mineral Agency, which delineates lands aggregating approximately 450 square kilometers (174 square miles) lying within Contract Areas 1 and 2 as an area of exploitation and development. The Burdine and Nancy Fields lie within this area as shown on the map. Plans have been completed for the Consortium and Ecopetrol to jointly install production facilities from these two fields to connect with a pipeline which will be built to run to the Orito Field, a distance of some eleven miles. Revenues from the sale of production are anticipated to be realized during the first quarter of this year.

The Consortium drilled and abandoned two exploratory wells in 1975, the Dolores #1 and the Las Chicas #1. In addition, the Consortium relinquished 5 of the 8 Association Contracts with Ecopetrol because the areas covered by those five contracts, located in the eastern portion of the concession, do not appear favorable for economic hydrocarbon accumulations.

Exploration for additional economic oil fields will continue on the three Association Contract Areas retained by the Consortium. These areas now comprise approximately 660,000 acres. The Company has a 12½ % working interest or 82,500 acres.

Tripco Venture

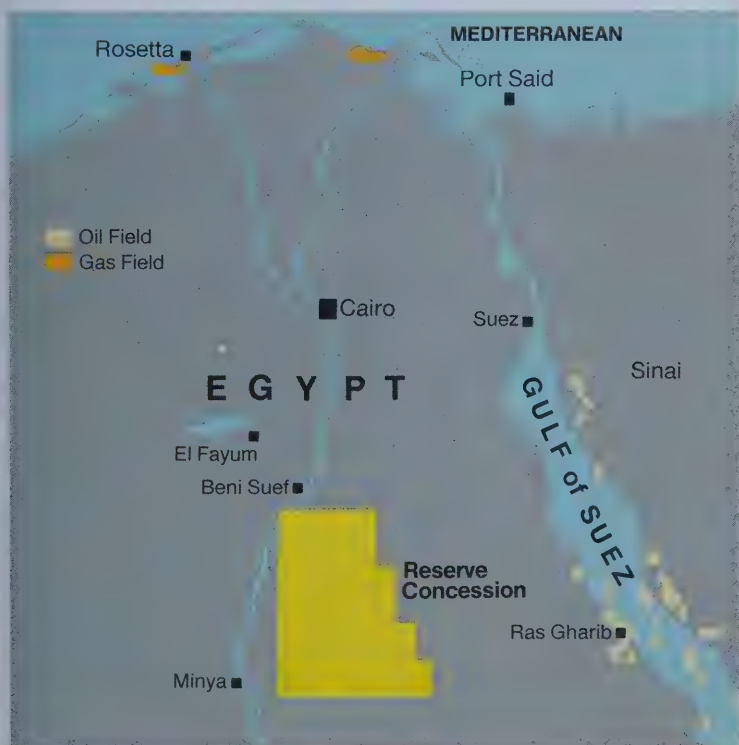
In Egypt (see the accompanying map) the Venture holds a concession covering approximately 1,778,000 acres in which Reserve's current net acreage position comprises 355,600 acres or a 20% interest. As a result of seismic work completed in 1975 drilling may be initiated in 1976. Reserve will not contribute drilling funds, but will endeavor to retain a cost-recoupment interest in the concession if drilling is undertaken.

In the Baltic Sea the Venture owns a concession covering approximately 116,000 acres in the *West German Baltic* area. The Company's interest in the concession is 10%, so that its net acre holding is 11,600 acres. Through a farm-out arrangement with Placid Oil, a seismic program was completed in the area in 1975. The data derived from this program are currently being interpreted and such interpretation may result in the election by Placid to proceed with the drilling of an exploratory well. Such drilling operations would be conducted at Placid's sole cost and would validate Placid's 50% interest in the concession.

In Syria a seismic reconnaissance program was completed on the off-shore concession held by the Venture. A detailed review of the data accumulated by this program failed to delineate any prospects worthy of further expenditures. Accordingly, the Venture has taken the necessary steps to relinquish the concession.

In the North Sea the Company holds a net acreage position of 10,800 acres in a concession on which a dry hole was drilled in 1974. The Venture has continued to endeavor to make farm-out arrangements on this acreage on favorable terms.

The Company does not plan to acquire additional concessions under the Tripco Joint Venture.





Reserve's real estate division, Apple Valley Ranchos, reported revenues of \$3.5 million in 1975, compared with \$3.8 million in 1974. The decline was due principally to environmental difficulties, but also less favorable general economic conditions than prevailed in prior years.

The principal activity of Apple Valley Ranchos, located in the high desert resort community about ninety miles east of Los Angeles, is the subdivision of undeveloped property owned by the Company into lots and the sale of such lots to the public. Ranchos also acts as exclusive sales agent, for property owned by others, under trust agreement and conditional contract of sale arrangements.

In the period 1945 through 1975, Reserve and its predecessors have achieved gross land sales, including sales of land owned by others, of \$91.6 million, representing the sale of approximately 15,820 parcels, including resale of repossessed lots. Approximately 85% of the lots sold were single family residential lots and the balance were multiple dwelling and commercial parcels.

At December 31, 1975, lot inventory consisted of 171 company-owned lots and 88 trust lots. Principal balance of contracts receivable with respect to company-owned lots and commissions receivable relating to trust lots amounted to \$6,525,000 and \$1,095,000, respectively, at year end. An aggregate of 9,774 acres of undeveloped property was owned in fee in the Apple Valley area at December 31, 1975, most of which is in noncontiguous blocks. Indebtedness against such holdings amounted to \$257,000 at year end.

In conjunction with its real estate operations, Reserve owns the Apple Valley Inn, a resort hotel with 101 rooms located on a 29-acre site. In 1975, four lighted tennis courts were added to further extend the list of recreational facilities available to the Inn's guests, which include golf, swimming and horseback riding. The hotel is operated by Frontier Hotels, Inc., a wholly-owned subsidiary of Reserve.

Reserve also owns the Apple Valley Ranchos Water Co., the major supplier of water to Apple Valley, with approximately 2,500 residential and commercial customers. Water is exceptionally important to the further development of Apple Valley. Engineering studies report that future water requirements can be met from present sources. Rates are subject to approval of the California Public Utilities Commission.

Environmental problems relating particularly to sewage disposal facilities and requirements have slowed the development in Apple Valley. Realistically these problems can and will be resolved just as they have been in other areas. It is important that they be solved soon and the Company is making every effort to achieve this objective. When that has been accomplished a renewed higher level of sales and profit results can be anticipated.

Sales and Repossessions

Year		No. of Lots Sold		No. of Lots Repossessed	
		Company Owned	Trust	Company Owned	Trust
1971	\$2,200,000	223	41	97	44
1972	2,600,000	199	23	96	32
1973	1,625,000	143	12	74	18
1974	1,373,000	122	14	55	26
1975	909,000	91	20	50	25



Business — General

(In this combined Annual Report and SEC Form 10-K references to "the Company" are references to the parent, Reserve, except in various instances where it will be recognized that the references are to one of the principal subsidiaries of Reserve such as Canadian Reserve.)

Reserve's leases and other mineral interests in lands, and Canadian Reserve's oil and gas reservations, permits and leases contain terms which are customary in the two areas. Reserve believes that its other foreign concessions are in material respects similar to concessions held by other oil companies. It is recognized by the Company that operations outside of the United States involve economic and political risks materially greater than those encountered in domestic operations.

Reserve's and Canadian Reserve's production is sold, generally, at posted field prices, customarily to major companies. In 1975, the average price received for crude oil, condensate and plant products was \$7.64 per barrel (C \$4.89 per barrel for Canadian production), after production taxes and transportation charges. Gas is usually sold from the wellhead pursuant to long-term contracts. In 1975, the average price received for gas was \$0.441 per Mcf (C \$0.48 per Mcf), net after processing charges with respect to sour gas, for Canadian gas. On December 31, 1975, the United States rate of exchange for the Canadian dollar was \$1.0174.

At December 31, 1975, Canadian Reserve had producing property development bank loans outstanding in the principal sum of C \$1,090,000 at 10 1/4 % interest.

Mohawk has for many years had various sources of crude for its refinery at Bakersfield, California. No material change occurred in 1975 and Mohawk's management believes that an adequate crude supply will continue to be available in 1976.

Most domestic purchases and sales of oil by Western Crude are by agreements, generally subject to 30/90 days cancellation notice. The largest single customer accounted for approximately 12% of sales in 1975. In the opinion of Western's management, the loss of any single customer would not have a materially adverse effect on Western.

No single supplier of oil to Western Crude accounts for more than 11% of its total purchases. Western has firm sources for some of its crude oil and in the past has been able to offset the loss of supplies, if incurred, with new sources. Western's management believes that it can maintain or increase its level of crude oil supplies.

Oil and Gas Reserves

Reserve's major oil and gas producing properties are located in the States of Texas, New Mexico, Wyoming and California, and in the Provinces of Saskatchewan, Alberta and British Columbia, Canada, by reason of its 88.4% ownership in Canadian Reserve.

The net proved reserves of crude oil, condensate, natural gas liquids, natural gas and sulfur have been estimated as of January 1, 1976, in reports prepared by the engineering staffs of Reserve and Canadian Reserve.

The distribution of these net reserves, after royalty interest, owned by Reserve in the United States and attributable to its 88.4% ownership in Canadian Reserve, segregated by operation areas, and between reserve categories of proved developed and proved undeveloped is as follows:

	Crude Oil, Condensate & Natural Gas Liquids (Bbls)	Natural Gas (Mcf)	Sulfur (Long Tons)
Proved Developed			
Western Division	3,014,000	12,268,000	—
Mid-Continent Division	8,285,000	31,496,000	—
Canadian Reserve (88.4%)	15,116,000	176,768,000	744,310
Total Proved Developed	26,415,000	220,532,000	744,310
Proved Undeveloped			
Western Division	—	—	—
Mid-Continent Division	—	—	—
Canadian Reserve (88.4%)	509,000	—	—
Total Proved Undeveloped	509,000	—	—
Grand Total Proved Reserves	26,924,000	220,532,000	744,310

Future capital investments required for adequate expansion of producing facilities and for development wells which will permit recovery of the reserves set forth above have been estimated to be \$5,808,000.

Some of the net proved crude oil and condensate reserves are located in fields where producing rates are restricted below productive capacity by prorationing, with the income from these reserves, therefore, being deferred over a longer period of time, which directly affects the present worth of the future income.

Reserve owns interests in certain fields which, in its opinion, have potential crude oil reserves over and above the proved reserves previously stated herein and which may be recoverable by water flood operations or other secondary or pressure maintenance operations in the future. The ultimate primary recovery to Reserve's interests in these fields has been estimated to be 9.9 million barrels. If and when the water flood programs which have been planned or initiated prove successful, as indicated by engineering studies, it would not be unusual to recover additional crude oil reserves approaching 75% of the amount produced by primary methods.

ITEM 2. Summary of Operations

The following consolidated summary of operations of Reserve Oil and Gas Company for the five years ended December 31, 1975 is not reported upon by certified public accountants.

Consolidated Summary of Operations

(In thousands, except per share amounts)

	1975	1974	1973	1972	1971
Revenues	\$1,021,113	\$ 724,721	\$ 406,007	\$ 259,200	\$ 179,442
Cost of sales and operating expenses (a)	960,133	673,895	362,888	235,058	157,996
Depletion, depreciation and abandonments	9,138	7,488	9,187	6,208	5,294
Interest expense	2,076	2,177	1,762	1,366	1,601
Federal, state and foreign income taxes	14,317	12,597	9,978	2,695	1,739
Income before extraordinary items	\$ 17,019	\$ 13,677	\$ 8,768	\$ 4,003	\$ 3,599
Extraordinary items	—	—	2,000	1,224	247
Net income (a) (c)	\$ 17,019	\$ 13,677	\$ 10,768	\$ 5,227	\$ 3,846
Income attributable to common stock	\$ 16,616	\$ 13,254	\$ 10,345	\$ 4,803	\$ 3,422
Per share of common stock (b):					
Income before extraordinary items	\$1.35	\$1.08	\$.68	\$.30	\$.29
Extraordinary items	—	—	.16	.10	.02
Income attributable to common stock	\$1.35	\$1.08	\$.84	\$.40	\$.31
Dividends	\$.12	\$.10	—	—	—
Weighted average number of common shares outstanding	12,314,000	12,273,000	12,271,000	11,904,000	10,978,000

a) In 1974, Reserve elected to change its method of valuing inventories of refined products and purchased domestic crude oil from average cost to the last-in, first-out method in order to reflect the current cost of conducting its business and to eliminate inventory profit arising from recent increases in petroleum product prices. The effect of this change in 1974 is a reduction in net income of \$658,000, equal to \$.05 per common share. The effect of this change, had it been applied retroactively to years prior to 1974, is not determinable.

b) Income per share of common stock is based on the weighted average shares outstanding during each year after giving retroactive effect to shares issued in poolings of interests and after deduction of preferred dividend

requirements. Assuming conversion of outstanding preferred stock and convertible debentures and exercise of outstanding stock options and warrants at the beginning of each year, there would have been no dilution of the per share amounts.

c) Revenue from Reserve's foreign operations and Reserve's equity in net income after related deferred income taxes are as follows:

	1975	1974	1973	1972	1971
	(In Thousands)				
Revenues	\$336,059	\$116,781	\$57,894	\$7,432	\$6,285
Equity in net income	3,549	2,695	4,730	1,234	1,220

Management's Discussion and Analysis of the Consolidated Summary of Operations

1975 vs. 1974

Total revenues in 1975 amounted to \$1.02 billion, an increase of 41% over the 1974 period. This increase was attributable to increased volume of domestic and foreign petroleum product sales and crude oil sales (23%) coupled with increased unit prices.

Increased prices were also received in 1975 for crude oil and natural gas produced and sold, but volumes were down slightly compared with sales in 1974. Interest, dividend and other revenues declined \$3.4 million in 1975 as a result of lower interest rates, a

decrease in funds available for investment and reduced ship charter revenues.

Cost of sales and operating expense amounted to \$960.1 million in 1975, up 42% over 1974. This increase was a result of increased cost of crude oil purchased and increases in the cost of labor, materials and supplies. Depletion, depreciation and abandonments increased in 1975, due primarily to increased expense relating to oil and gas exploration activity. Income tax expense increased \$1.7 million in 1975 compared with 1974, due to increased pre-tax income. The lower effective tax rate was principally attributable to an increase in the investment tax credit. All of these factors combined resulted in an increase in net income of \$3.3 million in 1975 or 25%, equal to 27 cents per common share.

1974 vs. 1973

Revenues amounted to \$724.7 million in 1974, an increase of 78% over 1973. This increase was due principally to price increases received from the sale of crude oil and petroleum products. Volumes of crude oil and natural gas produced and sold and crude oil purchased and sold, in total, increased slightly in 1974 compared with 1973. The volume of refined and other petroleum products sold increased approximately 37% in 1974. Interest and dividend income increased \$1.8 million to \$3.9 million in 1974 as a result of higher interest rates prevailing in 1974 and an increase in funds available for investment in short-term instruments. Real estate and other income increased \$3.4 million to \$8.7 million in 1974 due to an increase of \$3.2 million in ship charter income.

Cost of sales and operating expense amounted to \$673.9 million in 1974, an increase of 86% over 1973. This increase was primarily due to the increased cost of crude oil purchased and also reflects the increased cost of labor, materials and supplies and a 1974 change in method of valuing certain inventories from average cost to the last-in, first-out method. Depletion, depreciation and abandonments amounted to \$7.5 million in 1974, down \$1.7 million from 1973 due to a \$2.1 million write-down of certain oil and gas properties in 1973. Interest expense increased \$415,000 to \$2.2 million in 1974 as a result of increased interest rates in effect in 1974. Interest-bearing debt balances increased only slightly in 1974. Income tax expense increased \$2.6 million to \$12.6 million in 1974 due to higher pre-tax income. The tax rate was less than that in 1973 because of increased deductions for intangible drilling costs and allowable depletion. There was no extraordinary credit in 1974 compared with a credit of \$2.0 million in 1973 representing tax benefit from federal income tax net operating loss carryforwards.

Prior to 1973

Revenues and net income increased 57% and 106%, respectively, in 1973 compared with 1972. The principal reasons for these increases were increased prices received from the sale of crude oil and petroleum products and substantial sales and profits generated by newly established Western European subsidiaries of Western Crude Oil, Inc. Extraordinary items in 1971, 1972 and 1973 were principally income tax benefits of loss carryforwards.

Personnel

A number of key appointments were made during 1975 and in early 1976. R. Bruce Bailey was elected President and a Director of Canadian Reserve. Paul D. Meadows, previously President of Canadian Reserve, was elevated to the post of Chairman of the Executive Committee.

Other appointments were made as set forth below:

In Reserve

Don K. Little, Controller

In Canadian Reserve

J. R. Dundas, Vice President, Operations
Ronald W. Ambrose, Manager of Exploration

In Western Crude

Sid W. Binion, Group Vice President
David W. Fagerness, Group Vice President
Norman L. Rooney, Group Vice President
Rex L. Utsler, Vice President/Manager, Mid Continent Division
Larry J. Grant, Treasurer
Donald H. Anderson, Controller
Thomas R. Bruskotter, Executive Vice President,
Automatic Gas Distributors, Inc.
James G. Shurette, Vice President/Operations,
Spruce Oil Corporation

In Mohawk

Joseph P. D'Arienzo, Vice President and Treasurer



Drilling rig on the No. 9 well...one of two oil wells completed during 1975 in the Jack Canyon Field, in Carbon County, Utah.

Employees.

Reserve and its subsidiaries at year end 1975 had 1,233 full and part-time employees, including executive and general office personnel. Approximately 100 employees are members of national labor unions covered by collective bargaining agreements that establish rates of pay, wages, hours and other working conditions. Reserve considers its relationship and the relationship of its subsidiaries with their respective employees to be satisfactory, and no significant work interruptions have occurred in the last five years.

Competition.

All of the lines of business in which Reserve is engaged are intensely competitive. Particularly in its principal business as an independent but integrated oil company, Reserve must contend with competition from larger, more integrated and in many cases more strongly financed companies. Such competition involves every aspect of the oil and gas business, both domestic and foreign, including the discovery and development of new sources of supply; the purchasing, gathering, transporting, exchange and marketing of oil and gas; and the refining, transportation and marketing of petroleum products. In its other lines of business activity highly competitive conditions also prevail, including land development and warehousing operations in the areas of the Company's interests, and in respect to landfill operations. Reserve is also faced with continuous competition in respect to leases, licenses, concessions, franchises, trademarks and patents.

Regulation.

To a greater extent than ever before, 1975 witnessed increased regulation in respect to all of the lines of business in which Reserve is engaged. This was applicable in the United States and in Canada (where the Company's principal oil business operations are located) and also in all other areas in which Reserve is engaged in petroleum and petroleum-related and other business activities. Such regulation included various types of limits and controls with respect to production, export, transportation, price, allocation and marketing and refining. In addition to other historic domestic (federal and state) and Canadian (federal and provincial) regulations, additional administrative rules and requirements have been imposed, both domestically and in foreign operations, in recent years. These include regulations imposed by the U.S. Federal Energy Administration, the U.S. Federal Environmental Protection Agency and regional and local water control boards, land use commissions and similar agencies. The Company cannot predict the areas where or the extent to which future operations and resultant earnings will be affected by existing regulations or additional regulations with respect to current or new operations.

Notwithstanding the foregoing, there are favorable signs of constructive political and economic attitudes in the major areas in which the Company operates, which give encouragement to management's objectives in respect to continuing profitable results from the Company's businesses.

Financial Review

Earnings and Revenues. Reserve's net income achieved the highest level in the Company's history in 1975 and amounted to \$17,019,000, equal to \$1.35 per share on the 12,314,000 average common shares outstanding during the year. This represented an increase of 25% per share over 1974 net income of \$13,677,000, equal to \$1.08 per common share and is the fifth consecutive year in which Reserve's net income has reached a new record level. Revenues increased 41% in 1975 to \$1,021,113,000, compared with revenues of \$724,721,000 recorded in 1974. These record results are principally a result of increased volumes of crude oil and petroleum products sold at higher unit prices.

Changes in Financial Position. Funds generated from Reserve's operations increased to \$26,851,000 in 1975, up from \$26,306,000 reported in 1974. Other funds provided in the year amounted to \$19,115,000 and included \$17,135,000 of loan proceeds. Disposition of funds for property, investment and other asset additions reached a record high in 1975 of \$28,577,000 and included \$7,850,000 for construction of a crude oil storage complex near Cushing, Oklahoma. Other funds applied totaled \$16,904,000 and included \$1,881,000 for dividends paid on common and preferred stock and \$14,157,000 for payments and other decreases in long-term liabilities. Working capital amounted to \$28,781,000 at the end of 1975, up from \$28,296,000 at the end of 1974.

Quarterly Earnings. The following table summarizes the results of the Company's operations by quarters for 1975 and 1974.

Quarters	Revenues (In Thousands)		Net Income (In Thousands)		Net Income Per Common Share	
	1975	1974	1975	1974	1975	1974
First	\$ 196,660	\$176,116	\$ 3,541	\$ 4,588	\$.28	\$.37
Second	254,453	168,744	4,058	3,656	.32	.28
Third	283,146	172,230	5,247	2,602	.42	.21
Fourth	286,854	207,631	4,173	2,831	.33	.22
	<u>\$1,021,113</u>	<u>\$724,721</u>	<u>\$17,019</u>	<u>\$13,677</u>	<u>\$1.35</u>	<u>\$1.08</u>

Capital Stock. Reserve Oil and Gas Company Common Stock is traded on the New York and Pacific Stock Exchanges and is quoted in the Wall Street Journal and in other major newspapers. It was traded on the American Stock Exchange prior to August 12, 1974. Reserve's Preferred Stock (Series A, B and D voting; and Series C, non-voting) is not listed and is infrequently traded in the over-the-counter market. Accurate quotations for these shares are not available. The quarterly ranges of Common Stock trading per share for Reserve's Common Stock are shown below.

Quarters	Market Prices Per Share			
	1975		1974	
	High	Low	High	Low
First	\$ 7.875	\$4.375	\$9.250	\$6.875
Second	10.875	6.875	8.125	6.250
Third	10.250	7.250	6.875	3.750
Fourth	8.000	6.500	6.375	4.000

Dividends. Reserve paid cash dividends on its common stock at the rate of 12 cents per share in 1975, an increase of 20% over the dividend rate paid in 1974. The cash dividends paid on the Company's common stock in 1975 and 1974 were as follows:

Quarters	Cash Dividends			
	Per Share		Total in Thousands	
	1975	1974	1975	1974
First	\$.03	\$ —	\$ 368	\$ —
Second	.03	.05	370	614
Third	.03	—	370	—
Fourth	.03	.05	370	614
	<u>\$.12</u>	<u>\$.10</u>	<u>\$1,478</u>	<u>\$1,228</u>

In addition to the above, Reserve also paid regular quarterly dividends totaling \$403,000 in 1975 and \$423,000 in 1974 on its four issues of preferred stock at the quarterly rate of \$.34375 per share in each year.

Consolidated Statement of Income

Years ended December 31, 1975 and 1974

	1975 (in thousands)	1974
Revenues	<u>\$1,021,113</u>	<u>\$724,721</u>
Costs and expenses:		
Cost of sales and operating expenses (Note 5)	960,133	673,895
Selling and administrative expenses	17,940	14,382
Depletion, depreciation and abandonments	9,138	7,488
Interest expense	2,076	2,177
Minority interest in subsidiary's net income	490	505
Income taxes (Note 8)	14,317	12,597
	<u>1,004,094</u>	<u>711,044</u>
Net income (Note 2)	17,019	13,677
Preferred dividend requirements (Note 7)	403	423
Income attributable to common stock	<u>\$ 16,616</u>	<u>\$ 13,254</u>
Per share of common stock (in dollars):		
Net income attributable to common stock	<u>\$1.35</u>	<u>\$1.08</u>
Dividends (Note 6)	<u>\$.12</u>	<u>\$.10</u>
Weighted average number of common shares outstanding	<u>12,314</u>	<u>12,273</u>

Consolidated Statement of Shareholders' Equity

Years ended December 31, 1975 and 1974

	Preferred stock	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
			(in thousands)			
Balance at December 31, 1973	\$7,753	\$12,279	\$22,859	\$38,520	\$(57)	\$ 81,354
Net income	—	—	—	13,677	—	13,677
Cash dividends:						
Convertible preferred stock	—	—	—	(423)	—	(423)
Common stock	—	—	—	(1,228)	—	(1,228)
Conversion of preferred stock	(2)	—	2	—	—	—
Issuance of common shares from treasury warrants	—	—	(32)	—	32	—
Increase in underlying net equity in Canadian Reserve Oil and Gas, Ltd. resulting from sales of stock, net of minority interest	—	—	8	—	—	8
Balance at December 31, 1974	7,751	12,279	22,837	50,546	(25)	93,388
Net income	—	—	—	17,019	—	17,019
Cash dividends:						
Convertible preferred stock	—	—	—	(403)	—	(403)
Common stock	—	—	—	(1,478)	—	(1,478)
Exercise of stock options (Note 9)	—	30	159	—	—	189
Conversion of preferred stock	(534)	38	496	—	—	—
Balance at December 31, 1975	<u>\$7,217</u>	<u>\$12,347</u>	<u>\$23,492</u>	<u>\$65,684</u>	<u>\$(25)</u>	<u>\$108,715</u>

See accompanying notes.

Consolidated Balance Sheet

December 31, 1975 and 1974

Assets

1975 1974
(in thousands)

Current Assets:

Cash and short-term investments of \$10,145,000 (\$40,073,000 in 1974)	\$ 27,968	\$ 48,799
Accounts receivable	130,497	81,986
Installment contracts, commissions and notes receivable, net (Note 4)	996	995
Inventories (Note 5)	27,436	9,310
Prepaid expenses	1,294	1,115
Total current assets	<u>188,191</u>	<u>142,205</u>

Long-term receivables and investments:

Installment contracts, commissions and notes receivable, net (Note 4)	4,911	5,219
Undeveloped land and other investments, at lower of cost or market	6,592	4,822
	<u>11,503</u>	<u>10,041</u>

Properties, at cost (Note 3):

Oil and gas properties	107,904	95,259
Refining, manufacturing and distributing facilities	47,073	36,727
Commercial and other properties	8,575	7,634
	<u>163,552</u>	<u>139,620</u>
Less accumulated depletion and depreciation	60,580	53,745
	<u>102,972</u>	<u>85,875</u>

Other assets, at cost less amortization	4,567	3,121
	<u>\$307,233</u>	<u>\$241,242</u>

Liabilities and Shareholders' Equity

Current Liabilities:

Notes payable (Note 6)	\$ 7,690	\$ —
Current maturities of long-term debt (Note 6)	2,997	2,134
Accounts payable	140,108	102,118
Accrued liabilities	2,566	1,144
Income taxes payable	6,049	8,513
Total current liabilities	<u>159,410</u>	<u>113,909</u>

Notes and other long-term payables (Note 6)	20,698	17,457
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Deferred income taxes	14,747	13,315
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Minority interest	3,663	3,173
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Contingent liabilities (Note 11)

Shareholders' equity (Notes 2, 6, 7 and 9):

Capital stock:

Convertible preferred stock, \$25 par and involuntary liquidating value; authorized 800,000 shares; issued 288,666 shares (310,027 shares in 1974) (including 2,558 treasury shares)	7,217	7,751
Common stock, \$1 par value; authorized 30,000,000 shares; issued 12,346,899 shares (12,279,059 shares in 1974) (including 4,460 treasury shares)	12,347	12,279
Capital in excess of par value	23,492	22,837
Retained earnings	65,684	50,546
Treasury stock, at cost	(25)	(25)
Total shareholders' equity	<u>108,715</u>	<u>93,388</u>
	<u>\$307,233</u>	<u>\$241,242</u>

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1975 and 1974

	1975	1974
	(in thousands)	
Source of funds:		
Operations:		
Net income	\$ 17,019	\$13,677
Items not involving working capital:		
Depletion, depreciation and abandonments	9,138	7,488
Provision for non-current portion of deferred income tax	1,432	3,843
Other (including minority interest)	(738)	1,298
Total from operations	26,851	26,306
Collections on long-term notes receivable	1,398	1,594
Proceeds from exercise of stock options	189	8
Proceeds from loans	17,135	8,708
Proceeds from sale of properties	258	859
Other	135	1,260
	<u>45,966</u>	<u>38,735</u>
 Disposition of funds:		
Additions to properties	24,741	19,455
Payments and other decreases in long-term liabilities	14,157	8,531
Additions to investments and other assets	3,836	3,683
Purchase of minority interest	—	2,843
Additions to long-term notes receivable	866	1,743
Dividends	1,881	1,651
Other	—	24
	<u>45,481</u>	<u>37,930</u>
 Increase in working capital	<u>\$ 485</u>	<u>\$ 805</u>
 Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash and short-term investments	\$(20,831)	\$17,097
Accounts receivable	48,511	11,983
Installment contracts, commissions and notes receivable	1	67
Inventories	18,126	(194)
Prepaid expenses	179	(17)
	<u>45,986</u>	<u>28,936</u>
Increase (decrease) in current liabilities:		
Notes payable	7,690	—
Current maturities of long-term debt	863	(16)
Accounts payable and accrued liabilities	39,412	24,298
Income taxes payable	(2,464)	3,849
	<u>45,501</u>	<u>28,131</u>
 Increase in working capital	<u>\$ 485</u>	<u>\$ 805</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

Principles of Consolidation. Accounts of wholly- and majority-owned subsidiaries are consolidated in the accompanying financial statements.

Foreign Operations. Reserve changed its method of translating accounts carried in foreign currencies in 1975 to comply with Statement of Financial Accounting Standards No. 8. Under the new method, cash, receivables and payables are translated at the foreign exchange rate in effect at the balance sheet date; other assets and deferred taxes are translated at the rates prevailing when such assets were acquired or liabilities incurred, and revenues and costs and expenses are translated at the average rate during the period. Because application of this method would not have a material effect, prior periods have not been restated from the current, non-current translation method previously used by Reserve. Translation gains or losses, which are not material, are included in operating results.

Short Term Investments, consisting of certificates of deposit, bankers' acceptances, commercial paper and government obligations, are carried at cost which approximates market.

Inventories of crude oil, refined products and sulphur are carried principally at average cost except for inventories of refined products and purchased domestic crude oil, which are recorded on the last-in, first-out method. Carrying values are lower than market values; the current cost of inventories exceeds the last-in, first-out cost at December 31, 1975 and December 31, 1974 by \$3,663,000 and \$1,266,000, respectively. Materials and supplies are carried at or below average cost. Subdivided land is carried at cost, which is less than market. Property taxes and interest relating to subdivided land are expensed as incurred.

Properties. Expenditures for oil and gas exploration in the United States (including geological costs, delay drilling rentals and dry hole costs) are expensed as incurred; costs of producing properties are capitalized. Costs of acquiring nonproducing mineral rights are capitalized and charged to expense when surrendered. Exploration and development costs in Canada and other foreign areas are capitalized and amortized under the full-cost method of accounting.

Depletion and depreciation of the costs of oil and gas properties are computed on the unit-of-production basis except that, until economic reserves are established, foreign exploration costs, other than Canadian Reserve's, are amortized over the estimated holding period. Buildings and other equipment are depreciated

under the straight-line and declining balance methods at rates varying from 2½ % to 33⅓ % per annum.

Maintenance and repairs are expensed as incurred; renewals and replacements which improve or extend the life of existing properties are capitalized and depreciated. Gain or loss is recognized upon sale or retirement of assets depreciated on the straight-line or declining balance method. For properties depreciated on the unit-of-production method, the cost of the asset sold or retired, less the amount realized, is charged to accumulated depreciation.

Income Taxes. Deferred income taxes are provided for transactions which affect book and taxable income in different years (principally undistributed earnings of Western European subsidiaries, drilling and exploration costs incurred by Canadian Reserve, depreciation and sales of commercial land reported for income tax purposes on the installment method). No provision is made for U.S. income taxes attributable to earnings of Canadian Reserve as it is anticipated that accumulated earnings of \$12,949,000 (\$9,222,000 at December 31, 1974) will be permanently invested in Canada.

Among the provisions of The Tax Reduction Act of 1975 is the elimination of percentage depletion on most of Reserve's oil and gas production after January 1, 1975. As a result, intangible drilling costs, which are capitalized for book purposes and deducted for tax purposes, can no longer be considered in the nature of a permanent difference between book and taxable income. Accordingly, Reserve has elected to adopt the net change method of deferred tax accounting as described in Statement of Financial Accounting Standards No. 9. This method requires that, effective January 1, 1975, deferred income taxes be allocated on the net annual change in cumulative book/tax differences relating to intangible drilling costs. Deferred tax provided on such costs in 1975 under the net change method was immaterial. If the net change method had been applied in 1974, the effect would have also been immaterial. Deferred income taxes have not been provided for such cumulative timing differences of approximately \$14,000,000 that arose prior to 1975.

Investment tax credits of \$1,158,000 in 1975 (\$332,000 in 1974) have been accounted for under the flow-through method.

Employee Benefit Plans. Pension expense was \$556,000 in 1975 (\$465,000 in 1974) which includes funding at the rate of 10% per year of prior service cost under Reserve's company-wide retirement plan for eligible U.S. employees. Unfunded prior service cost amounted to \$2,600,000 at December 31, 1975. Unfunded vested benefits were approximately \$850,000 at December 31, 1975. It is anticipated that the provisions of the Employee Retirement Income Security Act of 1974 will not require materially increased contributions in future years. Reserve also has a thrift plan for the benefit of most U.S. employees. Generally, under the Plan participants are permitted to contribute from 1% to 5% of regular base pay, and Reserve contributes an amount equal to the aggregate of employee contributions. Reserve may make additional contributions under the provisions of the Plan, but has never done so. Reserve's contribu-

tion of \$300,000 in 1975 (\$231,000 in 1974) was charged to operations.

In May 1975, upon approval by its shareholders, Reserve adopted an Executive Incentive Bonus Plan for the benefit of eligible U.S. executives. Under the Plan, an amount equal to 3% of "adjusted consolidated net income of Reserve" (as defined in the Plan) may be awarded each year to eligible executives. Based on 1975 results, awards of \$390,000 may be made in 1976 and this amount has been accrued at December 31, 1975. A similar employee incentive plan was adopted by Canadian Reserve in 1975 under which \$120,000 was accrued for estimated 1976 payments. The awards under both plans will vest 62½% to the recipients in 1976 and the remainder will be payable in equal installments in each of the following three years.

Per-Share Data. Income per share of common stock is based on the weighted average shares outstanding after deduction of preferred dividend requirements. Assuming conversion of outstanding preferred stock and exercise of outstanding stock options and warrants at the beginning of the year, there would have been no dilution of the per-share amounts.

2. Foreign Operations

Information on Reserve's foreign operations (located primarily in Canada, Switzerland and Colombia) is as follows (excluding inter-company advances and adjusted for U.S. deferred income taxes):

	1975	1974
	(In thousands)	
Current assets	\$ 70,553	\$ 20,359
Current liabilities	(55,128)	(9,186)
	15,425	11,173
Other assets	43,371	38,977
Other liabilities	(12,581)	(13,787)
Net assets	\$ 46,215	\$ 36,363
Reserve's equity in net assets	\$ 42,552	\$ 33,094
Revenues	\$336,059	\$116,781
Net income	\$ 4,039	\$ 3,205
Reserve's equity in net income	\$ 3,549	\$ 2,695

3. Properties

The tables below set forth information with respect to properties and accumulated depletion and depreciation in the years 1974 and 1975:

Properties	Balance at beginning of period	Additions	Deductions		Balance at close of period
			Retirements or sales	Transfers and other	
1974			(In Thousands)		
Oil and gas properties	\$ 84,753	\$11,468	\$1,011	\$49	\$ 95,259
Refining, manufacturing and distributing facilities	30,626	7,075	974	—	36,727
Commercial and other properties	6,880	912	158	—	7,634
	<u>\$122,259</u>	<u>\$19,455</u>	<u>\$2,143</u>	<u>\$49</u>	<u>\$139,620</u>
1975					
Oil and gas properties	\$ 95,259	\$12,869	\$ 224	—	\$107,904
Refining, manufacturing and distributing facilities	36,727	10,762	416	—	47,073
Commercial and other properties	7,634	1,110	169	—	8,575
	<u>\$139,620</u>	<u>\$24,741</u>	<u>\$ 809</u>	<u>\$ —</u>	<u>\$163,552</u>

Accumulated Depletion and Depreciation

1974					
Oil and gas properties	\$ 32,673	\$ 4,646	\$ 82	\$50	\$ 37,287
Refining, manufacturing and distributing facilities	12,246	1,656	693	(1)	13,208
Commercial and other properties	3,065	294	109	—	3,250
	<u>\$ 47,984</u>	<u>\$ 6,596</u>	<u>\$ 884</u>	<u>\$49</u>	<u>\$ 53,745</u>
1975					
Oil and gas properties	\$ 37,287	\$ 5,015	\$ 34	—	\$ 42,268
Refining, manufacturing and distributing facilities	13,208	1,901	333	—	14,776
Commercial and other properties	3,250	368	82	—	3,536
	<u>\$ 53,745</u>	<u>\$ 7,284</u>	<u>\$ 449</u>	<u>\$—</u>	<u>\$ 60,580</u>

4. Installment Contracts, Commissions and Notes Receivable

These receivables totaled \$5,907,000 at December 31, 1975 compared with \$6,214,000 at the end of 1974, after allowance for loss (\$79,000 in 1975; \$105,000 in 1974) and deferred profit on residential land sales contracts and commissions receivable (\$3,076,000 in 1975; \$3,475,000 in 1974). Annual maturities approximate \$996,000 in 1976 and decline to \$700,000 by 1980.

5. Inventories

Inventories in the accompanying consolidated balance sheet and those used in the computation of cost of sales in the related consolidated statement of income are as follows:

	December 31,		
	1975	1974	1973
	(In Thousands)		
Petroleum products and sulphur	\$23,262	\$ 6,137	\$ 7,308
Subdivided land, principally under development	1,692	1,619	1,551
Materials and supplies	2,482	1,554	645
	<u>\$27,436</u>	<u>\$ 9,310</u>	<u>\$ 9,504</u>

6. Financing Arrangements

Long-term debt consists of the following:

	1975	1974
	(In thousands)	
Note payable to bank at ½ % above prime, due \$250,000 quarterly through 1975 and \$500,000 quarterly in 1976 and 1977	\$ 2,000	\$ 4,000
Note payable to bank at ½ % above prime, due in equal quarterly installments from 1977 through 1982	15,000	8,000
Production loan at ½ % above prime, due through 1977	482	2,113
Other	3,216	3,344
	<u>\$20,698</u>	<u>\$17,457</u>

The bank loan agreements require, among other things, the maintenance of minimum levels of working capital and net worth. The bank loan agreement relating to the note due in 1977 also prohibits the payment of cash dividends (waived in 1974 and 1975) on Reserve's common stock. The prime rate applicable to both bank notes was 7¼ % at December 31, 1975 and 10½ % at December 31, 1974.

In connection with the Basin acquisition, consummated in January, 1976 (see Note 10), Reserve obtained, during 1975, long-term loan commitments totaling \$42,400,000 from two banks. Terms of the loan commitments provide for repayment of principal in 1977, interest on amounts borrowed at ½ % above prime, annual commitment fees of ½ % of the commitment (approximately \$100,000 in 1975), and compensating balance requirements of 10% of the commitment plus 10% of the loan balance outstanding.

Compensating balances (all unrestricted as to withdrawal) required at December 31, 1975 under all financing arrangements amounted

to approximately \$11,945,000, including \$5,495,000 related to unused lines of credit. Average balances required in 1975 were approximately \$7,560,000.

The aggregate amounts of minimum maturities of long-term debt at December 31, 1975 are as follows: years ending December 31, 1976—\$2,997,000; 1977—\$5,270,000; 1978—\$2,704,000; 1979—\$2,683,000; 1980—\$2,636,000; and thereafter \$7,405,000. Under short-term financing arrangements with the banks, Reserve borrowed \$7,690,000 at ½ % above prime during 1975. The average amount borrowed during the year was \$2,800,000 at an average interest rate of 8%. These arrangements, expiring in 1976, include a \$10 million line of credit of which \$6,550,000 was unused at December 31, 1975.

7. Shareholders' Equity

Reserve has four series of 5½ % cumulative, convertible, voting (except Series C), preferred stock. Shares issued as of December 31, 1975 are as follows: Series A—23,538; Series B—103,190 (includes 2,558 treasury shares); Series C—9,600; and Series D—152,338. Such shares are convertible into common stock at various rates and are callable by Reserve at various times and at amounts up to 106% of par value.

At December 31, 1975, 895,219 shares of common stock were reserved for issuance as follows: 600,358 shares for conversion of preferred stock and 294,861 shares in connection with stock options. Warrants for the purchase of 115,652 common shares were acquired by Reserve through the issuance of 3,000 common shares from the treasury in 1974.

8. Income Taxes

The components of income tax expense are as follows:

	1975	1974
	(In thousands)	
Federal Income Tax		
Current	\$ 8,806	\$ 7,669
Deferred	663	1,651
State Income Tax		
Current	1,473	973
Foreign Income Tax		
Current	2,736	157
Deferred	639	2,147
	<u>\$14,317</u>	<u>\$12,597</u>

The principal component of deferred federal income tax expense in 1975 was approximately \$500,000 related to the tax effect of a disposition of assets recognized in a prior year for book purposes and in 1974 was \$1,353,000 relating to undistributed earnings of Western European subsidiaries. Deferred foreign income tax relates principally to drilling and exploration costs and depreciation differences in Canada. Reserve's effective income tax rate is 45.7% in 1975 and is less than the federal income tax rate of 48%, principally because of investment tax credits (3.7%) and the lower effective tax rate for Canadian income (2.5%). Other factors increasing the effective tax rate include state income taxes and minority interest.

9. Stock-Option Plans

Reserve has several stock-option plans for officers and key employees, approved by shareholders at various times, under which options are granted at the market price at the date of grant and exercisable one year after date of grant. Options expire five years after date of grant. The following sets forth information on stock options:

		Option Price		Market Value	
Number of Shares		Per Share	Total	Per Share	Total
Options becoming exercisable:					
1974	47,300	\$6.750 to \$9.875	\$327,401	At date exercisable	
1975	132,000	4.375 to 8.750	694,751	\$4.375 to \$7.875	\$314,225
				4.875 to 9.750	999,875
Options exercised:					
1974	None	\$ —	\$ —	At date exercised	
1975	30,200	4.500 to 8.285	189,010	\$ —	\$ —
				7.500 to 9.875	283,954

Options outstanding at December 31, 1975 and December 31, 1974 were as follows:

Year Option Granted	Option Price Per Share	1975		1974	
		Number of Shares	Total Option Price	Number of Shares	Total Option Price
1968	\$14.750 to \$17.750	—	\$ —	57,500	\$ 488,750
1969	10.625 to 15.375	—	—	41,500	352,750
1970	5.875 to 10.250	—	—	18,500	124,000
1971	5.875 to 8.125	3,500	23,938	3,500	23,938
1972	7.000 to 7.500	8,000	58,500	8,000	58,500
1973	5.451 to 9.875	65,861	431,454	78,075	517,908
1974	4.375 to 8.750	127,500	670,001	132,000	694,751
1975	6.125 to 9.625	90,000	632,800	—	—
		<u>294,861</u>	<u>\$1,816,693</u>	<u>339,075</u>	<u>\$2,260,597</u>

During 1975 and 1974, options were granted, cancelled and expired as follows:

	Options Granted	Options Cancelled	Options Expired
1974	132,000	17,005	81,218
1975	90,000	2,514	101,500

At December 31, 1975 options for 204,861 shares were exercisable and no shares were available for granting future options (207,075 and 3,000 shares, respectively, at December 31, 1974). During 1970, an extension of the period in which options for 113,500 shares were exercisable was granted, and their exercise price during the extension period was reduced from various prices to \$8.50 per share. All of these alternate options were either cancelled or expired on or before November 5, 1975. Upon exercise of options, the excess of the proceeds over the par value of the

shares issued is credited to capital in excess of par value. No charges are made against income in accounting for the options. In addition, Canadian Reserve has a stock-option plan under which options are granted at 90% of market value at date of grant, become exercisable in annual 20% increments beginning one year after date of grant, and expire ten years after the date granted. At December 31, 1975 options for 105,100 shares were exercisable and 25,600 shares were available for granting of future options (81,300 and 34,700 shares, respectively, at December 31, 1974).

The following sets forth additional information with respect to Canadian Reserve stock options:

		Option Price		Market Value	
Number of Shares		Per Share	Total	Per Share	Total
Options becoming exercisable:					
1974	34,800	\$3.20	\$111,360	\$2.25 to \$3.85	\$121,520
1975	29,700	3.20	95,040	2.12 to 2.75	75,425

No options were exercised in 1974 or 1975.

Options outstanding at December 31, 1975 and December 31, 1974 were as follows:

Year Option Granted	Option Price Per Share	1975		1974	
		Number of Shares	Total Option Price	Number of Shares	Total Option Price
1971	\$3.20	98,000	\$313,600	101,000	\$323,200
1972	3.20	32,500	104,000	32,500	104,000
1973	3.20	18,000	57,600	26,900	86,080
1974	—	—	—	—	—
1975	2.03	21,000	42,630	—	—
		<u>169,500</u>	<u>\$517,830</u>	<u>160,400</u>	<u>\$513,280</u>

During 1975 and 1974, options were granted, cancelled and expired as follows:

	Options Granted	Options Cancelled	Options Expired
1974	—	13,600	—
1975	23,000	13,900	—

10. Acquisition of Basin Petroleum Corp.

In January, 1976, Reserve purchased all the outstanding stock of Basin Petroleum Corp. (Basin) for a consideration of approximately \$40,000,000 consisting of cash of \$34,000,000 (see Note 6) and warrants valued at \$6,000,000 to purchase 1,605,340 shares of Reserve's common stock at \$10.00 per share. Net assets of Basin at December 31, 1975 were \$15,000,000 (unaudited). Unaudited revenues and net income of Basin for the twelve months ended December 31, 1975 were \$23,000,000 and \$3,000,000, respectively.

Assuming the acquisition had been effective at the beginning of 1975, Reserve's net income for 1975 would not have been materially affected after applying pro forma adjustments to reflect additional depletion and depreciation resulting from recording Basin's property and equipment at fair value; additional amortization of cost in excess of net assets acquired; additional interest expense on funds borrowed to finance the acquisition and related income taxes.

11. Contingencies

Reserve is subject to regulation by the Federal Energy Administration (FEA), which among other things imposes price restraints and subjects Reserve to the FEA's entitlement program. Reserve's pricing policies under these regulations are subject to review by the FEA. Reserve believes that in the event of an FEA review, no material adjustments to its consolidated financial statements would result.

At December 31, 1975, Reserve and its consolidated subsidiaries were contingently liable for approximately \$38 million: \$22 million

in loan guarantees for Texoma Pipe Line Company (20% owned by Western Crude), \$14 million in loan guarantees for other pipeline affiliates and oil and gas joint ventures, and \$2 million related to open letters of credit.

Report of Certified Public Accountants

The Board of Directors and Shareholders
Reserve Oil and Gas Company

We have examined the accompanying consolidated balance sheet of Reserve Oil and Gas Company at December 31, 1975 and 1974 and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Reserve Oil and Gas Company at December 31, 1975 and 1974 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Francisco, California
February 20, 1976

ITEM 4. Parents and Subsidiary Companies

The following is a list of all companies in which Reserve or a subsidiary of Reserve had an ownership interest on December 31, 1975:

	<u>Place of Incorporation</u>	<u>% of Ownership</u>
RESERVE OIL AND GAS COMPANY ("Parent")	California	
Apple Valley Ranchos Water Co.	California	100
Canadian Reserve Oil and Gas Ltd.	Alberta	88.4
Blue Star Petroleum Malta Ltd.	Malta	90
Colombian Reserve Oil and Gas Company	California	100
Frontier Hotels, Inc.	California	100
Halbouty Alaska Oil Company	Delaware	80.1
Lacal Properties, Inc.	California	100
Marine Oil Company	California	85
Mohawk Petroleum Corporation, Inc.	California	100
Reserve Oil, Inc.	Delaware	100
Reserve International, Inc.	Delaware	100
Reserve Synthetic Fuels, Inc.	Delaware	100
Tripco Petroleum, Inc.	Delaware	12.5
Western Crude Oil, Inc.	Delaware	100
Automatic Gas Distributors, Inc.	Colorado	100
Banner, Inc.	Oklahoma	100
Bay Transport Corporation	Michigan	100
Bens Run Pipeline Corporation	West Virginia	100
Butte Pipe Line Company	Delaware	19
Canyon Pipe Line Corporation	Texas	10
Gibson Holdings, Ltd.	Alberta	13
Pontotoc Oil Company	Oklahoma	100
Spruce Oil Corporation	Colorado	100
Texoma Pipe Line Company	Delaware	20
Uinta Pipeline Corporation	Utah	100
Wascana Pipe Line, Inc.	Delaware	33.3
Wascana Pipe Line, Ltd.	Saskatchewan	33.3
Wesco International, Inc.	Delaware	100
Easco S.A.	Switzerland	100
Easco G.m.b.H.	Germany	100
Wesco G.m.b.H.	Germany	100
Easco B.V.	Netherlands	100
Easco International S.A.r.L.	Lebanon	100
Easco Marine Ltd.	Great Britain	100
Easco Petroleum Ltd.	Great Britain	100
Easco S.p.A.	Italy	100
Eastern Reserve Oil, S.A.	Panama	100
Wesco Pipe Line Company	Oklahoma	100
Western Crude Terminals, Inc.	Oklahoma	100
Western Gravities, Inc.	Colorado	100

Inactive subsidiaries are omitted.

All majority owned subsidiaries are included in the consolidated financial statements. The remaining subsidiaries (less than majority owned), considered in the aggregate as a single subsidiary, would not be significant, and consequently financial statements of such subsidiaries are not filed.

On January 20, 1976 Reserve International, Inc., was merged into Basin Petroleum Corp., which then became a wholly-owned subsidiary of Reserve Oil, Inc., and thus a second-tier subsidiary of Reserve, the parent.

ITEM 5. Legal Proceedings

There are no material legal proceedings pending. However, see 'Regulation' on page 28.

ITEM 6. Increases and Decreases in Outstanding Securities

(a) Capital Stock by Title of Class

	Common Stock \$1.00 Par Value	Preferred Stock \$25 Par Value			
		Series A	Series B	Series C	Series D
Outstanding (1/1/75)	12,279,059 shares ¹	23,638 shares	103,299 shares ²	9,600 shares	173,490 shares
Increase (1/1/75-12/31/75)	67,840	—	—	—	—
Decrease (1/1/75-12/31/75)	—	100	109	—	21,152
Outstanding (12/31/75) ³	12,346,899 shares ¹	23,538 shares	103,190 shares ²	9,600 shares	152,338 shares

¹ Includes 4,460 treasury shares and shares owned by subsidiaries.

² Includes 2,558 treasury shares and shares owned by subsidiaries.

³ The indicated decreases in Preferred Stock were the result of conversions by Preferred shareholders of such stock into Common Stock. The increase to the Common Stock resulted from the foregoing conversions and the issuance of 30,200 shares of Common Stock as a consequence of exercise by employees of stock options granted pursuant to qualified stock option plans.

(b) Stock Options

	Common Stock Options
Outstanding (1/1/75)	339,075 Shares
Options Granted (1/1/75-12/31/75)	90,000 Shares
Options Cancelled or Expired (1/1/75-12/31/75)	(104,014) Shares
Options Exercised (1/1/75-12/31/75)	(30,200) Shares
Outstanding (12/31/75)	294,861 Shares

(c) Loans and Loan Guaranties

Reserve from time to time during the year ended December 31, 1975, issued undiscounted notes for cash in connection with its borrowings from banks. See Note 6 to Consolidated Financial Statements for a description of such transactions.

During 1975 Reserve guaranteed an extension of credit by American Express Company to Tripco Petroleum, Inc. in an amount up to \$125,000 for Tripco's Syrian operations and in an amount up to \$625,000 for Tripco's Egyptian operations.

The loans and guaranties were made pursuant to the exemption afforded by Section 4(2) of the Securities Act of 1933. No brokers, underwriters or finders were used in such transactions. The notes and guaranties have not been legended, and no stop transfer instructions have been given in connection therewith, because, due to the nature of the recipient of the loans or guaranties and the forms of obligations themselves, there is no danger of a distribution of the notes and guaranties.



A "close-up" view of the well shown in the small photograph on Page 4: Basin's Bayou Piquant Continental Land and Fir No. 1, Terrebonne Parish Louisiana.

ITEM 7. Approximate Number of Equity Security Holders

Title of Class	Number of Record Holders	Record Date	Title of Class	Number of Record Holders	Record Date
Common Stock (\$1.00 Par Value)	20,778	November 5, 1975	Preferred Stock, Series C (\$25.00 Par Value)	6	November 5, 1975
Preferred Stock, Series A (\$25.00 Par Value)	328	November 5, 1975	Preferred Stock, Series D (\$25.00 Par Value)	174	November 5, 1975
Preferred Stock, Series B (\$25.00 Par Value)	568	November 5, 1975	Common Stock Options	87	December 31, 1975

ITEM 8. Executive Officers of the Registrant

Name	Current Age	Position	Period of Service at Such Position
John R. McMillan	66	Chairman of the Board and Chief Executive Officer	Since Jan. 1974
Newton T. Bass	72	Chairman of the Board Emeritus	Since Jan. 1974
Paul D. Meadows	49	President and Chief Operating Officer	Since Jan. 1974
Harold F. Green	60	Senior Vice President	Since Mar. 1975
Walter E. Cramer, Jr.	59	Vice President	Since Apr. 1966
J. Edouard Michaud	44	Vice President—Planning and Development	Since Oct. 1974
Robert E. Aberley	50	Vice President and Treasurer	Since Jan. 1974
Marshall C. Turner	61	Vice President—Operations	Since Jan. 1974
William H. LeRoy	49	Vice President—Exploration	Since Jan. 1974
Thomas L. Deen	52	Secretary	Since Mar. 1975

There is no family relationship between any of the executive officers. Each is appointed by the Board of Directors to serve at the pleasure of the Board and has the following business experience:

Mr. McMillan, Director, President and Chief Executive Officer of the Company from 1963 through 1973, became Chairman of the Board in 1974. Mr. Bass, Director and Chairman of the Board from 1966 through 1973, became Chairman of the Board Emeritus in 1974. Mr. Meadows, a Vice President of the Company before becoming President of Canadian Reserve Oil and Gas Ltd. in 1968, became a Director in 1970 and was elected President and Chief Operating Officer in 1974. Mr. Green became Secretary in 1956, Vice President in 1962, a Director in 1973 and was appointed Senior Vice President in 1975. Mr. Cramer has been Vice President

and Director since 1966 when the Apple Valley Building and Development Co., of which he was an officer, was acquired by Reserve. Prior to being appointed an officer of Reserve in 1974, Mr. Michaud had served as Vice President in charge of Development and Production for Canadian Reserve since June 1972 and had been active in the Canadian oil and gas industry for approximately 19 years. Mr. Aberley, Treasurer since 1962, was elected Vice President in 1974. Mr. Turner, formerly with Humble Oil and Refining Company, joined the Company in 1969 as Manager of Operations and was elected Vice President in 1974. Mr. LeRoy, Chief Geologist for the Company since 1956, became Manager of Exploration in 1965 and was elected Vice President in 1974. Mr. Deen, an Assistant Secretary since 1963, became Corporate Secretary in 1975.

ITEM 9. Indemnification of Directors and Officers

Section 830 of the California Corporations Code makes provision for the indemnification of officers and directors in terms sufficiently broad to include indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended.

In addition, the officers and directors of Reserve and its subsidiaries are covered by an insurance policy which protects the executive against direct liability or loss for any error, misleading statement, act, omission, neglect, or breach of duty while acting in his individual or collective capacity. The policy also protects Reserve in its obligation, pursuant to by-laws, charter or otherwise, to indemnify its executives for their personal loss due to legal actions directed against them in their capacity as directors and officers.

ITEM 10. Financial Statements and Exhibits Filed

(a) Financial Statements

The 1975 and 1974 consolidated financial statements together with the report thereon of Arthur Young & Company dated February 20, 1976 appear on pages 30 through 37.

All schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

Financial statements and schedules of Reserve Oil and Gas Company (not consolidated) are omitted since the Company is primarily an operating company, and all subsidiaries included in the consolidated financial statements being filed, in the aggregate, do not have minority interests and/or indebtedness (not guaranteed by the parent) to any person other than the registrant or its consolidated subsidiaries in amounts which together exceed 5% of the total assets as shown by the consolidated balance sheet at December 31, 1975.

(b) Exhibits

Computation of earnings per common share (unaudited).

There have not been filed hereunder certain instruments with respect to long-term debt (unregistered under the Securities Exchange Act of 1934) which aggregate less than 5% of the total consolidated assets of Reserve. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

ITEMS 11 Through 15.

Registrant's Proxy Statement dated April 1, 1976, for the election of directors was filed with the Commission pursuant to Regulation 14A. Accordingly, Items 11 to 15, inclusive, are omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RESERVE OIL AND GAS COMPANY
(Registrant)
By Harold F. Green
Harold F. Green
Senior Vice President

Date: March 19, 1976

Additional title page data
(Form 10-K)
not shown on Page 5:

Commission File Number: 1-3474

Incorporated in California

I.R.S. Employer No.: 94-0801550

Executive Offices: 550 South Flower Street,
Los Angeles, California 90071 — (213) 626-4108

SECURITIES registered pursuant to Section 12(b) of the Act:
Common Stock New York Stock Exchange
Pacific Stock Exchange

SECURITIES registered pursuant to Section 12(g) of the Act:
Preferred Stock 5½ % Cumulative Convertible (voting)
Series A, Series B

The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months, and has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Principal Subsidiaries

Basin Petroleum Corp.

2601 N.W. Expressway
Oklahoma City, Oklahoma 73112
Carl W. Swan, President

Canadian Reserve Oil and Gas Ltd.

639-5th Avenue, S.W., Calgary, Alberta
T2P 0M9, Canada
R. Bruce Bailey, President

Mohawk Petroleum Corporation, Inc.

550 South Flower Street,
Los Angeles, California 90071
Malcolm McDuffie, President

Western Crude Oil, Inc.

1776 Lincoln Street,
Denver, Colorado 80203
Cortlandt S. Dietler, President

Division and Other Offices

Executive Office:

550 Flower Street,
Los Angeles, California 90071
John R. McMillan, Chairman of the
Board and Chief Executive Officer
Harold F. Green, Senior Vice President

General Operating Office:

1776 Lincoln Street,
Denver, Colorado 80203
Paul D. Meadows, President and
Chief Operating Officer

Mid-Continent Division

1806 Fidelity Union Tower,
Dallas, Texas 75201
John M. Penrod, Manager

Western Division

1776 Lincoln Street,
Denver, Colorado 80203
Robert P. Mangold, Manager

Apple Valley Ranchos Division

P.O. Box 1, Apple Valley,
California 92307
Walter E. Cramer, Jr., Vice President

Transfer Agents/Registrars

Security Pacific National Bank

Corporate Trust Division
333 South Hope Street,
Los Angeles, California 90071

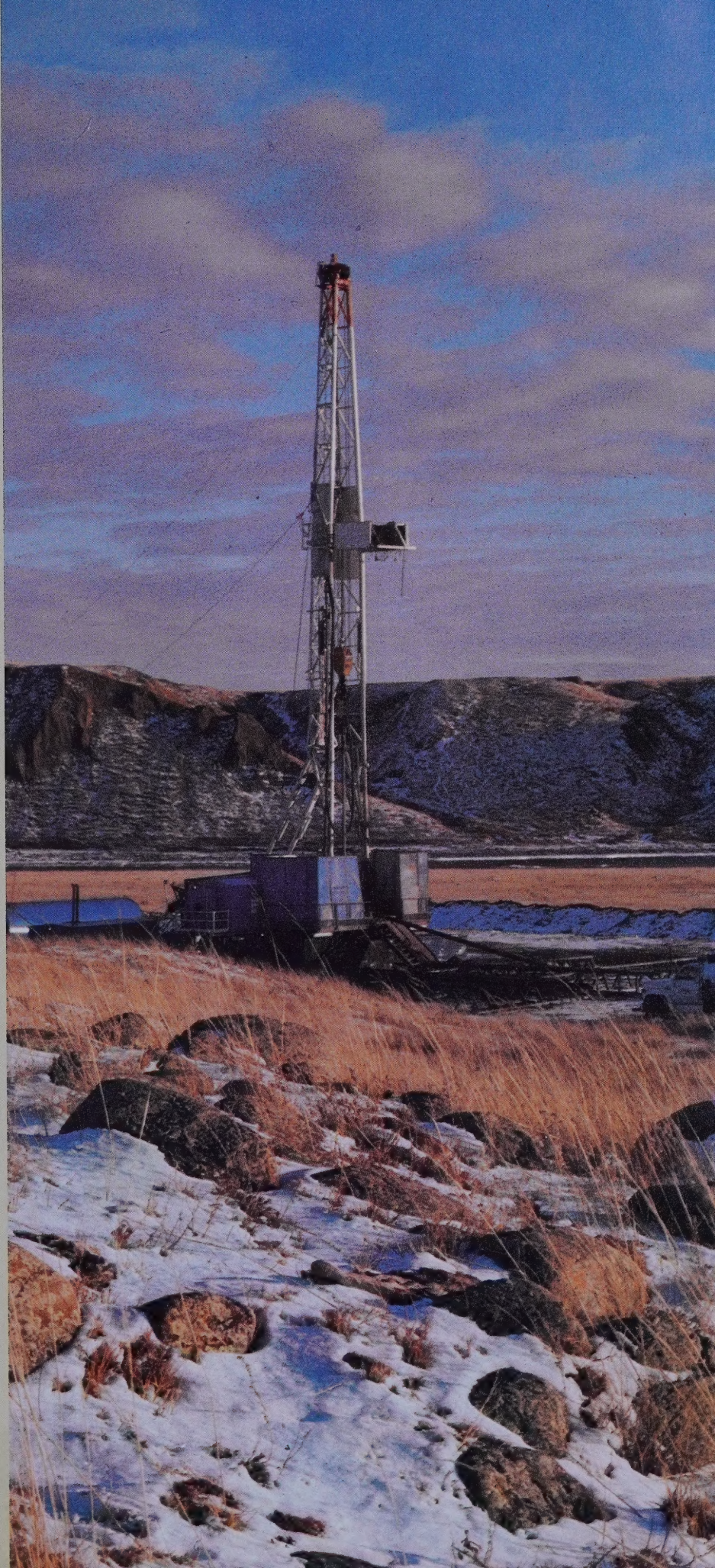
The Chase Manhattan Bank, N.A.

One Chase Manhattan Plaza,
New York, New York 10015

Shareholders and Employees

Shareholders21,854
Employees 1,233

Canadian Reserve oil discovery Well 8-14 in
the Purple Springs area of Southern Alberta.



RESERVE



RESERVE

